



Corix Utilities (Foothills Water) Inc.

2023-2025 Revenue Requirements and Rates Application

July 25, 2023

Alberta Utilities Commission

Decision 27844-D02-2023

Corix Utilities (Foothills Water) Inc.

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Proceeding 27844

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1 Decision summary

1. In this decision, the Alberta Utilities Commission considers Corix Utilities (Foothills Water) Inc.'s (Corix or Foothills Water) proposed changes to its terms and conditions, rate design and rates for 2023-2025.
2. The Commission directs Corix, among other things, to:
 - (a) update its 2023-2025 forecasts to reflect capital additions and operating and maintenance costs that are disallowed in this decision;
 - (b) change the depreciation rate for meters immediately based on actual service life, set up a new capital asset category for the new distribution control panel and create and justify the service life to be used for this new asset class;
 - (c) create an amortization of reserve differences account to record and expense the remaining unamortized rate base of the meters that are being replaced;
 - (d) update its return on equity to a rate of 8.5 per cent;
 - (e) implement a practice of obtaining a minimum of three competitive bids for operating and maintenance (O&M) goods and services with a value greater than \$25,000 and capital project work, such as construction, supervision, engineering or architectural services, with a value over \$100,000; and
 - (f) provide its 2022 water loss statistics and set system-specific water loss targets for its 2023 to 2025 test period and provide an actionable plan to meet those targets.
3. The findings and determinations listed above are to be included in a compliance filing to this decision, which must be filed by August 31, 2023.

2 Background and details of the application

2.1 Introduction and procedural summary

4. Corix is a corporation that owns and operates the water utility providing service to the community of Heritage Pointe, Alberta, in Foothills County on the southern border of the city of Calgary. This regulated public water utility service comprises potable water distribution service to 955 customers (residential and commercial), potable bulk water service at its fill station and raw water transportation service to four customers. Corix's water rates are set under the *Public Utilities Act* under the purview of the Commission. Corix also has a wastewater utility serving the same community that is unregulated. This is explained further under Section 2.2.

5. On December 2, 2022, Corix filed an application for approval of its 2023 to 2025 revenue requirements and rates related to its water utility serving customers in the hamlet of Heritage Pointe, Alberta.¹ In its application, Corix requested a 2023 rate increase of 18.6 per cent for its typical residential and commercial customers, as well as smaller increases for 2024 and 2025. Corix last received an approval for rate increases for its Heritage Pointe residential and commercial customers for the period 2012 to 2014² and since that time there have been no rate changes for its customers.

6. In its application, Corix requested that the proposed residential and commercial customer rates be made effective on an interim basis beginning on January 1, 2023. Corix stated it was requesting the interim rate due to the length of time associated with the regulatory review process. The Commission denied that request in Decision 27844-D01-2023,³ stating that Corix had not demonstrated that an interim rate increase was in the public interest. The Commission found there should be a continuation of the existing rates charged by Corix on an interim basis commencing on January 1, 2023, until such time as new rates are approved. Reasons for the denial were provided in Decision 27844-D01-2023, but ultimately the Commission found that the need for the interim rate increase as of January 1, 2023, had not been demonstrated, and that the proposed interim rate increase had not been designed in a way that would smooth the transition to final rates.⁴

7. The Commission issued a notice of the application dated January 6, 2023, to advise Corix customers that it would be holding an information session with a presentation about the application process on February 7, 2023, and that Corix Utilities representatives would also be available to answer questions about the application. In the notice and reiterated at the information session interested parties were invited to register their concerns or support for the application by February 14, 2023. Corix included a copy of the Commission's notice of application with the January invoices to customers to ensure all stakeholders received the information.

8. At the information session, Commission staff provided information regarding the regulatory process and how rates are determined. Corix staff presented information regarding the specific application.

9. The Commission received statements of intent to participate (SIPs) from the following individuals: Nate Nielsen, Allan Hart and Ken Severs. A. Hart's SIP stated that A. Hart and two other individuals would be representing the communities of Heritage Pointe and that all the representatives were customers of Corix. On February 6, 2023, A. Hart filed a letter on behalf of the Heritage Pointe owners associations, homeowners associations and condominium corporations. In this decision, these are collectively referred to as the Customer Group. In the letter, the Customer Group identified a number of concerns and questions regarding the rate application.

¹ Exhibit 27844-X0001, application, December 2, 2022.

² Decision 2013-082: Corix Utilities (Foothills Water) Inc., Refiling Application Pursuant to AUC Decision 2012-262, Proceeding 2193, March 8, 2013.

³ Decision 27844-D01-2023: Corix Utilities (Foothills Water) Inc., 2023-2025 Revenue Requirements and Rates Application – Interim Rates, Proceeding 27844, February 23, 2023.

⁴ Decision 27844-D01-2023, paragraphs 9-11.

10. After the information session, A. Hart also filed a second letter,⁵ February 16, 2023, on behalf of himself, Victor Stobbe and K. Severs that stated they wanted to emphasize and expand upon points that they raised in the previous letter. The letter listed their main concerns with the Corix application, along with a copy of a presentation that discussed cost recovery through rate design and cost allocation in complex organizations.⁶

11. On February 23, 2023, the Commission advised that it would proceed with the testing of this application by way of a written process as per Rule 011: *Rate Application Process for Water Utilities*, and issued a process schedule that included the filing of information requests (IRs) and responses, argument and reply argument.⁷

12. The Commission established a written process for the application that resulted in the schedule below:

Process step	Due date
Commission IRs to Corix	March 3, 2023
IRs from customers (interveners) to Corix	March 10, 2023
IR responses from Corix for both the Commission and intervener IRs	April 20, 2023
Round 2 IRs to Corix	May 3, 2023
Round 2 IR responses from Corix	May 12, 2023
Written argument	May 19, 2023
Written reply argument	May 26, 2023
Decision report release (60 days under Rule 011)	July 25, 2023

13. The Commission considers that the record of this proceeding closed on May 26, 2023. In reaching the determinations contained in this decision, the Commission has considered the full record of this proceeding, including the submissions by each party. Accordingly, references in this decision to specific parts of the record are intended to assist the reader in understanding the Commission’s reasoning relating to a particular matter and should not be taken as an indication that the Commission did not consider other relevant portions of the record with respect to that matter.

2.2 Regulation of water utilities

14. Foothills Water is the owner of a public utility within the meaning of the *Public Utilities Act*.⁸ Under the *Public Utilities Act*, the Commission has “all the necessary jurisdiction and power to deal with public utilities and the owners of them”.⁹ Corix Utilities (Foothills Wastewater) Inc. (Foothills Wastewater) is a separate corporation that owns and operates the sewage treatment facilities at Heritage Pointe. Foothills Wastewater serves the same customers

⁵ Exhibit 27844-X0012, Correspondence from A. Hart, February 16.

⁶ Exhibit 27844-X0013, “Hot Topics in Oil Pipeline Ratemaking – Rate Design & Cost Allocation” by Charles Caldwell of Vinson & Elkins LLP and Bob Van Hoecke of the Regulatory Economics Group, LLC.

⁷ Exhibit 27844-X0014, AUC letter - Directions on proceeding and schedule, February 23, 2023.

⁸ In the *Public Utilities Act*, “public utility” is defined to mean, *inter alia*, a system, works, plant equipment or service for the production, transmission, delivery or furnishing of water, heat, light or power supplied by means other than electricity, either directly or indirectly to or for the public.

⁹ *Public Utilities Act*, Section 78(1).

as Foothills Water. Foothills Wastewater is not a public utility within the meaning of the *Public Utilities Act*, and is not subject to rate regulation by the Commission.

15. The Customer Group expressed concern that the unregulated nature of the wastewater business provides an opportunity for Corix to “sidestep” any disallowances to its regulated potable water rates, by increasing its wastewater rates commensurately.¹⁰

16. While the Commission is receptive to these concerns it does not have the same jurisdiction over Foothills Wastewater that it does over Foothills Water. The Commission is not empowered under legislation to set rates for Foothills Wastewater or to investigate its conduct.

17. As an administrative tribunal, the Commission’s powers are limited to those granted in its enabling legislation. The Supreme Court of Canada made the following point regarding the jurisdiction of the Commission’s predecessor in *ATCO Gas & Pipelines Ltd. v. Alberta (Energy and Utilities Board)*:¹¹

Administrative tribunals or agencies are statutory creations: they cannot exceed the powers that were granted to them by their enabling statute; they must “adhere to the confines of their statutory authority or ‘jurisdiction’ (and t)hey cannot trespass in areas where the legislature has not assigned them authority. Mullan, at pp. 9-10 (see also S. Blake, *Administrative Law in Canada* (3rd ed. 2001), at pp. 183-84).

18. Sewage disposal and waste management are not enumerated as public utility services in the *Public Utilities Act*, which establishes the regulation of investor-owned public utilities. In contrast, these services are specified in the definition of “public utility” in the *Municipal Government Act*, which establishes the regulation of municipally owned public utilities. The Alberta Court of Appeal has confirmed that this distinction is deliberate, and reflects a legislative intent to exclude wastewater from regulation by the Commission.¹² In this proceeding, the Customer Group clarified that it is not asking the Commission to “regulate” the wastewater business, but expressed that it is necessary to review the historical cost information of both services, because of shared operating and overhead costs between the potable water and waste water functions.¹³

19. A prior Corix decision¹⁴ discussed that in situations where water services and wastewater services are jointly provided by affiliated companies, the Commission reviews the apportionment of costs between the services to ensure that revenues from one area are not used to offset the costs of the other. In that prior proceeding, Corix provided as part of a response to an IR details on what specific operating and maintenance (O&M) costs were allocated between water and wastewater, and what the allocation percentages were.¹⁵ The Commission reviewed this information and concluded that no cross-subsidization was occurring between the services provided by Foothills Water and Foothills Wastewater.

¹⁰ Exhibit 27844-X0012, Letter of concern and questions from all residential customers, PDF page 3.

¹¹ 2006 SCC 4, paragraph 35.

¹² *Macdonald Communities Limited v Alberta Utilities Commission*, 2019 ABCA 353, paragraphs 23, 27. Leave to appeal to the Supreme Court of Canada dismissed: 2020 CanLII 19542.

¹³ Exhibit 27844-X0033, Intervenor letter, page 1.

¹⁴ Decision 2012-262: Corix Utilities (Foothills Water) Inc., Part 2 – Application for New Water Rates, Proceeding 1828, Application 1608311, September 28, 2012, paragraph 119.

¹⁵ Decision 2012-262, PDF page 27, paragraph 117.

20. In the current proceeding, the main costs that have been allocated to the regulated water services and unregulated wastewater services are the corporate services costs, the common administrative costs and the regional services costs. The Commission reviewed the details of the allocation of these three cost categories provided by Corix¹⁶ and finds that the same allocation methodology was used in allocating these costs to the water services and the wastewater services. This supports a finding that with respect to these cost categories, there is no cross-subsidization between the water services and wastewater services. Nevertheless, the Commission has carefully scrutinized the allocations towards Foothills Water, and its findings are set out in greater detail below.

3 Customer submissions

21. The SIPs and submissions from Corix customers are described below. Some of the customer submissions on specific issues are also addressed in the relevant sections of this decision.

22. N. Nielsen explained in his SIP¹⁷ that he was against the rate increase, he believed it was unjust and stated that raising the price of water puts this essential resource out of reach for many community members, particularly those who are already struggling to make ends meet.

23. K. Severs submitted a SIP¹⁸ and stated that he would be reviewing the application in consultation with all of the homeowners associations.

24. A third SIP¹⁹ was received from A. Hart who stated that he and two others would represent the communities of Heritage Pointe in this proceeding. The issues identified in A. Hart's SIP were the increases to O&M costs, corporate allocations, accounting assumptions (such as rate of return and deemed interest rates), distribution of revenue recovery from commercial versus residential users, missing historical data and what he described as an overly aggressive capital investment plan. A. Hart also noted in his SIP that he would be requesting information related to wastewater historical costs and rate increases because they are shared with potable water and require shared oversight.

4 Revenue requirement

25. Corix submitted the following forecast for its revenue requirements during the application test period:²⁰

¹⁶ This information was provided in confidential exhibits 27844-X0036-C to 27844-X0041-C.

¹⁷ Exhibit 27844-X0006, Nate Nielsen SIP, December 14, 2022.

¹⁸ Exhibit 27844-X0010, Ken Severs SIP, February 8, 2023.

¹⁹ Exhibit 27844-X0008, A. Hart SIP, January 30, 2023.

²⁰ Exhibit 27844-X0001, application, Table 14.

Table 1. Forecast revenue requirements 2023-2025

	Forecast 2023	Forecast 2024	Forecast 2025
	(\$)		
Operating and Maintenance Expenses	1,179,619	1,169,561	1,199,716
Franchise Fees	--	--	--
Depreciation	223,299	260,228	274,699
Amortization of Contributions	(7,390)	(10,515)	(13,640)
Amortization of Deferred Charges	--	--	--
Interest Expense	199,656	224,679	228,228
Equity Return	210,989	237,432	241,183
Income Tax Expense (Recovery)	--	6,237	43,094
Total Revenue Requirements	1,806,172	1,887,622	1,973,282

Commission findings

26. The Commission recognizes that some of the revenue requirement numbers will change as a result of its findings contained throughout this decision; therefore, Corix is directed to update its revenue requirement as part of its compliance filing.

5 Rate base

27. Corix provided the following mid-year rate base calculations for its 2021 actual, 2022 projected forecast, and 2023 to 2025 test period forecasts:²¹

Table 2. Plant in service and mid-year rate base calculations 2021-2025

	Actual 2021	Projected 2022	Forecast 2023	Forecast 2024	Forecast 2025
	(\$)				
Gross Plant In Service					
Balance at beginning of year	7,043,563	7,102,518	8,480,155	10,111,214	10,758,514
Balance at end of year	7,102,518	8,480,155	10,111,214	10,758,514	11,131,314
Mid-Year Plant In Service	7,073,041	7,791,336	9,295,685	10,434,864	10,944,914
Plant Accumulated Depreciation					
Balance at beginning of year	(2,618,723)	(2,779,664)	(2,965,451)	(3,188,750)	(3,448,978)
Balance at end of year	(2,779,664)	(2,965,451)	(3,188,750)	(3,448,978)	(3,723,678)
Mid-Year Plant Accumulated Depreciation	(2,699,193)	(2,872,558)	(3,077,101)	(3,318,864)	(3,586,328)
Net Mid-Year Plant In Service	4,373,847	4,918,779	6,218,584	7,116,000	7,358,586
Net Mid-Year CIAC	(303,418)	(296,028)	(288,638)	(429,685)	(567,607)
Mid-Year Plant in Service (Net of CIAC)	4,070,429	4,622,750	5,929,946	6,686,315	6,790,979
Mid-Year Deferred Charges	0	0	0	0	0
Working Capital	79,516	95,680	98,302	97,463	99,976
Mid-Year Rate Base	4,149,945	4,718,431	6,028,247	6,783,778	6,890,955

28. The Commission notes that the last time it approved Corix rate bases (2012 to 2014), the forecast mid-year rate base approved for 2014 was \$4,586,184,²² which is \$436,239 greater than

²¹ Exhibit 27844-X0001, application, tables 19 and 20.

²² Proceeding 2193, Corix Utilities (Foothills Water) Inc. (CUFW), Refiling Application to Decision 2012-262, Exhibit 0011.02.CU-2193, CUFW Updated Financial Model, tab Rate Base and Rev Req, Excel cell M13.

Corix's 2021 actual rate base. This decrease in rate base suggests that during this period (2015 to 2021), when Corix did not file any new rate applications, depreciation on its assets in service was outpacing new capital additions and contributions in aid of construction (CIAC).

29. The following sections discuss Corix's forecasts for capital additions and depreciation.

5.1 Capital additions

30. Below is the list of capital additions forecast by Corix for 2023 to 2025:²³

Table 3. 2022 projected and 2023-2025 forecast capital additions

	2022 Projected	2023 Forecast	2024 Forecast	2025 Forecast
	(\$)			
Project #1: Intake/Riverbank Rehab	1,255,000	--	--	--
Project #2: Auto transfer switch at Lake Reservoir	--	45,000	--	--
Project #3: Water Main Betterment	24,000	--	--	--
Project #4: 2 Valve/actuator assemblies for DAF 2	15,000	--	--	--
Project #5: Distribution Services	52,867	38,500	14,300	7,800
Project #6: Meter Exchange Program	--	50,000	100,000	115,000
Project #7: General Plant	30,770	783,000	200,000	--
Project #8: Distribution Control Panel Upgrade	--	427,260	--	--
Project #9: Water Treatment Plant/Pumping Plant	--	80,000	33,000	--
Project #10: DAF 1 Control Valving to Electronic	--	--	--	250,000
Project #11: UV Units and Diesel Fuel Genset	--	207,300	--	--
Project #12: WTP Capacity Expansion	--	--	300,000	--
Total Plant Additions	1,377,637	1,631,060	647,300	372,800
Total Contributions in Aid of Construction	--	--	(300,000)	--
Net Plant Additions after CIAC	1,377,637	1,631,060	347,300	372,800

31. Corix proposed 12 capital projects to be approved in its 2023 to 2025 revenue requirement.²⁴ Out of these 12 projects, five projects incurred capital costs in 2022. Capital costs incurred in 2022 require Commission approval to be included as capital additions into the opening rate base for 2023.

32. The Commission scrutinized the proposed capital costs in Corix's application and makes findings on specific capital projects below. Projects and their depreciation rates/service lives applied for during the test period that are not specifically mentioned in the sections below are approved as filed.

5.1.1 Intake replacement and riverbank rehabilitation project

33. The 2013 summer flood in Calgary caused structural damage to Corix's raw water intake system and to a portion of the adjacent riverbank. The damage was significant, disabling Corix's raw water intake for several weeks after the flooding event. The government provided a grant to Corix, which was recorded as a CIAC in 2014, in the amount of \$334,734, to aid with the repairs.²⁵ With these funds, Corix hired Matrix Solutions and Blue Ox for the engineering design and construction repair work on the riverbank alongside the raw water pump house, which

²³ Exhibit 27844-X0001, application, PDF page 48, Table 13.

²⁴ Exhibit 27844-X0001, application, PDF page 48, Table 13.

²⁵ Exhibit 27844-X0001, application, PDF page 49.

involved the installation of rip rap. In this decision, the repairs performed in the immediate aftermath of the 2013 flood are referred to as “the original repair work.”

34. After completion of the original repair work, Corix’s operators observed that the embankment had eroded and the rip rap had sloughed into the river. When the rip rap sloughed into the river, it punctured the intake pipe screen. Upon investigation, Corix determined that the wrong size of rip rap had been installed. Corix then hired Associated Engineering to determine the extent of the damage on the intake pipe screen. Associated Engineering assessed the damage and concluded that the intake screen required temporary patching to prevent further damage, and that a complete replacement of the damaged screen was required after repair of the riverbank. This work was performed in 2022, and is referred to in this decision as “the subsequent repair work.”

35. Corix submitted that the condition of the riverbank and the urgency to replace the damaged intake screen necessitated that the subsequent repair work be completed during a limited time window in 2022, as permitted by Alberta Environment and Parks,²⁶ in order to avoid catastrophic damage to the intake system. Following a competitive bidding process, Associated Engineering was contracted to be Corix’s prime contractor to oversee the subsequent repair work and verify compliance to the correct specifications.

36. In its application, Corix indicated it was still receiving invoices from contractors for residual costs due to repair work associated with damages not previously discovered by the contractors. Consequently, Corix had increased its forecast of this project by \$55,000 from the amount it had previously communicated to its customers during its pre-application open house sessions to \$1,255,000 as filed in the application.²⁷

Commission findings

37. For the reasons that follow, the Commission denies full recovery of the applied-for costs of the intake replacement and riverbank project. Instead, the Commission approves two-thirds of the project’s 2022 forecast, in the amount of \$836,667, to be added to rate base.

38. Regarding the original repair work in 2013, the Commission accepts Corix’s explanation of the need to deviate from its usual procedure for selecting qualified contractors. Widespread flood damage limited contractor availability compromising the usual competitive bidding process, compounded by the urgency to complete repairs and limit further riverbank deterioration. The Commission therefore accepts Corix’s decision to retain Matrix Solutions, and rely on Matrix Solutions to select a construction contractor to perform the original repair work and mitigate risk of further damages caused by the collapsing riverbank. At some point, however, it became apparent that the original repair work was deficient. In this regard Corix acknowledged that Matrix had identified at the time of installation that the installed rip rap did not meet specifications, but that “work [was] done to address the concern.”²⁸ Corix did not elaborate on what that work entailed. Regardless of what steps were taken to address the fact that the original rip rap did not meet specifications, the rip rap sloughed into the river, contributing to the need for the subsequent repair work.

²⁶ On October 24, 2022, the Ministry of Environment and Parks was renamed the Ministry of Environment and Protected Areas.

²⁷ Exhibit 27844-X0001, application, PDF page 50.

²⁸ Exhibit 27844-X0020, Corix response to CORIX-AUC-2023MAR03-001(e).

39. Corix argued that in hindsight, certain actions could have been improved, but the reality of dealing with a natural disaster and recovery from the natural disaster in real time is much different than looking at the situation 10 years later.²⁹ Corix added that the original repair work was successful in preventing the pump house from falling into the river, and that throughout the time period in question, it was able to continue to provide safe and reliable drinking water to customers.³⁰

40. Recognizing that the unprecedented regional flooding caused damages that required urgent attention, the Commission agrees that Corix acted appropriately in getting repairs done quickly to ensure that it was able to continue providing reliable drinking water to customers. However, Corix did not provide an explanation for why it did not consider pursuing any legal or regulatory remedies once deficiencies in the original repair work performed by its contractors had become apparent requiring significant additional expenditure.

41. In response to Commission IRs, Corix provided a Matrix memorandum of August 2, 2013, stating that Matrix was responsible to (among other things) ensure that the material provided met the specified design standards and to direct Blue Ox to ensure that rock is placed and compacted to maximize the installed density to minimize the potential for movement during future floods.³¹ Matrix also stated it was responsible to provide an individual qualified to oversee the works (considered the onsite engineer) as required/directed by Corix. Matrix further stated that the onsite engineer would ensure that the works are built as designed, with minimal impacts to the environment and direct the contractor as needed.

42. Further, Corix confirmed that the signed contract for Blue Ox included representations and warranties for the work, and the signed contract for Matrix Solutions included typical errors and omissions insurance for engineering consulting companies.³² Nevertheless, Corix did not explain why legal or regulatory remedies were not considered or pursued in light of the known deficiencies on the original repair work.

43. The costs that Corix now seeks to recover from customers are not costs associated with responding to the 2013 floods (which was largely funded by government grant) or necessary maintenance or upkeep to the original repair work. Instead, the costs relate largely to damages caused by the original repair work, such as the replacement of the damaged intake screen and sloughing of the original rip rap. The Commission considers it unreasonable to ask customers to pay for all these costs, especially where avenues to recover these costs from the original contractors have not been exhausted.

44. Therefore, the Commission finds it unreasonable to grant Corix the full recovery of the intake replacement and riverbank replacement project cost. The Commission does recognize that Corix responsibly sourced the subsequent repair work done to properly remedy the deficiencies of the original repair work. The Commission finds that granting two-thirds of the project costs achieves a balance between the costs that are necessary and prudently incurred, and the costs that could have been offset or avoided by different business decisions. Accordingly, the Commission

²⁹ Exhibit 27844-X0042, Corix argument, paragraph 79.

³⁰ Exhibit 27844-X0042, Corix argument, paragraph 79.

³¹ Exhibit 27844-X0020, Corix IR response, CORIX-AUC-2023MAR03-001(b) attachment, PDF page 96.

³² Exhibit 27844-X0020, Corix IR response, CORIX-AUC-2023MAR03-001(b).

approves two-thirds of the intake replacement and riverbank rehabilitation project's 2022 forecast, in the amount of \$836,667, to be added to rate base.

5.1.2 General plant

45. Corix proposed to build an office building and a new storage building in addition to several minor infrastructure upgrades. Corix estimated the construction cost of the office building to be \$750,000³³ and the cost of the storage building to be approximately \$200,000.³⁴

46. Corix stated that it currently subleases office space which is shared by Corix's staff for its regulated water utility, unregulated wastewater utility, and service contracts business.³⁵ Rather than renew the lease in September 2023, Corix proposed to construct an office building adjacent to its water treatment plant and explained that it would receive annual payments from Corix's unregulated businesses to offset its revenue requirement for its regulated water utility business. Corix argued that its proposed location allows it to use existing land on the utility right of way which creates a costs savings opportunity relative to leasing. Acquiring any new land would significantly reduce the benefits of building a new facility.³⁶

47. Currently, Corix uses a Quonset storage structure for equipment storage near the pumphouse.³⁷ Corix proposed to upgrade this structure into a permanent garage at the same location to safely store chemicals, critical equipment and a few items currently stored at the existing subleased office.³⁸

48. In its application, Corix forecast annual payments from its unregulated businesses under Other Recoveries.³⁹ Corix stated that 60 per cent of the costs in Other Recoveries are related to its unregulated business operations for the shared office and storage space. Corix provided an analysis to support that Corix having its own office building and permanent garage would result in an annual net savings of \$27,133 to Foothills Water, in comparison to paying its portion of the annual costs of leasing its current office space in Calgary.⁴⁰ The Commission notes that the annual cost of the new facilities used in the comparison includes return on rate base, interest expense and income tax expenses.⁴¹ However, Corix did not demonstrate that it sampled the market to obtain other office lease quotes in the same geographic area.

49. Corix noted that essentially all the Foothills Water customers are also customers of the wastewater business, and the majority of the shared office costs are to the benefit of the same customer group.⁴² If Corix's regulated and unregulated businesses were to operate in separate offices, the office costs for water and wastewater operations would be higher as economies of scope would not exist.⁴³

³³ Exhibit 27844-X0001, application, PDF page 52.

³⁴ Exhibit 27844-X0005, worksheet "Sch4," Excel cell P15. The Commission interprets that this amount is for the proposed storage structure.

³⁵ Exhibit 27844-X0001, application, PDF page 52.

³⁶ Exhibit 27844-X0042, Corix argument, paragraph 97.

³⁷ Exhibit 27844-X0001, application, PDF page 22.

³⁸ Exhibit 27844-X0001, application, PDF page 52.

³⁹ Exhibit 27844-X0001, application, PDF page 92, Table 37.

⁴⁰ Exhibit 27844-X0026, attachment response to CORIX-AUC-2023MAR03-005(c).

⁴¹ Exhibit 27844-X0005, worksheet Office.

⁴² Exhibit 27844-X0020, Corix IR response, CORIX-AUC-2023MAR03-005(b).

⁴³ Exhibit 27844-X0020, Corix IR response, CORIX-AUC-2023MAR03-005(b).

Commission findings

50. The Commission understands the Class C Engineering Cost Estimate for the proposed office building⁴⁴ to be a preliminary estimate. Corix argued that it is responsible for prudently forecasting the building construction costs based on information known or reasonably known at the time of construction; and if costs are materially higher than estimated, the Commission has the ability to disallow a portion of the costs and allow only prudently incurred costs to be added to plant and rate base.⁴⁵

51. While the Commission does have the authority to disallow the recovery of capital costs associated with project overruns, in the current circumstances Corix has not proposed the use of a deferral account and has instead sought to have the project costs added to its revenue requirement. The Commission is concerned that a potential gap between actual construction costs and the estimate on the office building may negate the projected cost savings given that Corix is basing its cost/benefit analysis on a preliminary estimate.

52. The Commission has considered Corix's proposal based on its preliminary costs estimate. The Commission cautions that, should the buildings' actual costs be significantly different or allocations and/or tenants changed, requests for cost increases will be carefully scrutinized by the Commission to determine when increased costs were known to Corix, whether the increases should have been included in the cost comparison, and whether the increased costs are prudent in the circumstances.

53. The Commission is concerned that, under Corix's proposal, costs associated with constructing the new office building would be included long-term in Corix Water's regulated rate base, whereas any rental income would be subject to market fluctuation. Although it appears, based on the evidence presented and cost comparison calculated by Corix, that the new office and storage buildings have the potential to provide a benefit to Corix Water ratepayers, the Commission is not persuaded that Corix owning the entirety of the building is the most cost-effective and prudent option for Corix's water utility customers.

54. Based on Corix's submission that the current allocation of shared office and storage space is 40 per cent regulated to 60 per cent unregulated, the Commission approves 40 per cent of the forecast cost for the office building, in the amount of \$300,000, to be included in Corix's rate base. Similarly, the Commission approves 40 per cent of the forecast cost for the permanent garage, in the amount of \$80,000, to be included in the rate base.

55. The Commission considers this a reasonable balancing of the benefit of constructing new facilities and the imperative of ensuring that costs included in rate base are just and reasonable.

5.1.3 Ultraviolet treatment unit and diesel fuel genset

56. The developer at Heritage Pointe is responsible for all capital expenditures related to expanding the water distribution system to service future developments. Investments in infrastructure that are not associated with incremental customer additions, but that are required

⁴⁴ Exhibit 27844-X0001, application, PDF page 52.

⁴⁵ Exhibit 27844-X0042, Corix argument, paragraph 107.

for refurbishments to existing infrastructure or improvements to supply existing customers, are Corix's responsibility.⁴⁶

57. Corix installed an upgrade to the ultraviolet (UV) treatment unit at the water treatment plant and a new backup generator at Heritage Pointe. Recognizing that both existing and new customers would benefit from the UV treatment unit upgrade and backup generator, Corix and the Heritage Point developer, Heritage Point Properties (HPP), agreed to split the capital costs of the equipment. HPP paid the invoices in full, and Corix is set to reimburse HPP after Commission approval of the project.

58. HPP incurred \$261,254 for the upgrade to the UV treatment unit and the new backup generator. Corix indicated that it will reimburse 79 per cent of the total costs, and it calculated the amount to be \$207,299.⁴⁷

59. The Commission asked Corix to provide detailed calculations to demonstrate how the allocated amounts were determined. Upon review of Corix's calculations, the Commission noted that 72.9 per cent of the customer base were existing customers rather than 79 per cent as stated in Corix's application. In an IR response to the Commission, Corix explained that the parties in the negotiation relied on preliminary customer figures to determine the share for existing customers. Upon further review, Corix confirmed that the 72.9 per cent share is correct and it has recalculated the correct allocated amount to be \$190,334.75, for existing customers to pay for their fair share of costs.

Commission findings

60. The Commission is satisfied with Corix's explanation and revised calculations. Accordingly, the Commission approves \$190,334.75 in 2023 capital additions for the upgrade to the UV treatment unit and the new backup generator.

5.1.4 Meter exchange program

61. Corix proposed a meter exchange program to replace all the meters that are past the manufacturer recommended service life of 15 years. It is estimated that approximately 450 meters are projected to be replaced between test years 2023 and 2025.

62. In an IR response to the Commission, Corix cited Measurement Canada's advice on best practice to follow manufacturer recommendations on useful life for water meters. Corix acknowledged that water meters can also work beyond their recommended useful life but noted that this could result in meter failure, Automated Meter Reading (AMR) battery failure or inaccurate readings.⁴⁸

63. Corix indicated that it does not conduct meter testing, but rather, meters are kept in service until they are discovered to be faulty, or when a meter reaches the end of its useful life.⁴⁹ Despite not having conducted meter testing, Corix identified that aged or failed meters contribute

⁴⁶ Exhibit 27844-X0001, application, PDF page 54.

⁴⁷ Exhibit 27844-X0001, application, PDF page 54.

⁴⁸ Exhibit 27844-X0020, CORIX-AUC-2023MAR03-004(a).

⁴⁹ Exhibit 27844-X0020, CORIX-AUC-2023MAR03-004(c).

to water losses.⁵⁰ For clarity, Corix believes that aging meters under-read consumption, meaning that a portion of perceived water loss is not true water loss but unbilled consumption.⁵¹

64. Large system water losses are reported in Corix's application. This issue is discussed further in Section 9.

Commission findings

65. The Commission concludes Corix provided adequate support for the meter replacement project. The Commission finds that Corix acted reasonably in adopting the water meter's manufacturer recommendations on replacing the units after 15 years of service life and considers the explanation of aging meters to under-read consumption to be credible. The Commission also believes this could be a contributing factor to the level of water losses experienced by Corix, although to what extent it contributes is unknown. Accordingly, the Commission fully approves this capital project, in the amounts of \$50,000 for 2023, \$100,000 for 2024, and \$115,000 for 2025.

5.1.5 Distribution control panel

66. The distribution control panel controls the distribution pumps, receives and sends online analyzer data, monitors building sensors, monitors potable water level in the clearwell, and monitors other equipment and alarm controls.⁵²

67. The distribution control panel has been in service since the early 1990s, and Corix reported more frequent operation disruptions with this system. As the panel is now obsolete and Corix can no longer purchase critical spare parts,⁵³ Corix began and completed the initial design and drawings work in 2022, and ordered a new programmable logic controller (PLC). However, the PLC will not be installed until 2023 due to the lengthy delivery times associated with this type of equipment purchase.⁵⁴

68. In an IR response to the Commission, Corix indicated that it had sole-sourced the design and commissioning work of the PLC to MPE Engineering Ltd. (MPE), who is the provider of all supervisory control and data acquisition (SCADA) network and programming works at Corix facilities.⁵⁵ Corix explained that this contractor has been its service provider for all the historical electrical and operational technology work for the Foothills Water plant, and the contractor has direct first-hand knowledge of the changes, upgrades and modifications that give them an advantage over other contractors. Consequently, over time, Corix observed that MPE's quotes continuously came in lower than other contractors, who would have had to charge a fee to conduct investigations about the existing system.⁵⁶

Commission findings

69. The Commission finds that the new PLC upgrade is necessary because continued operations of a panel experiencing intermittent failure could lead to compliance and operational

⁵⁰ Exhibit 27844-X0020, CORIX-AUC-2023MAR03-035(a).

⁵¹ Exhibit 27844-X0035, CORIX-AUC-2023MAY03-002(b).

⁵² Exhibit 27844-X0001, application, PDF page 53.

⁵³ Exhibit 27844-X0020, CORIX-AUC-2023MAR03-006(d).

⁵⁴ Exhibit 27844-X0001, application, PDF page 53.

⁵⁵ Exhibit 27844-X0020, CORIX-AUC-2023MAR03-006(a).

⁵⁶ Exhibit 27844-X0020, CORIX-AUC-2023MAR03-006(a).

issues. The Commission notes that the COVID-19 pandemic resulted in supply chain disruptions that affected procurement times for electrical equipment, and it is satisfied with Corix's explanation of initiating the PLC replacement in 2022. Accordingly, the Commission approves Corix's 2023 forecast of \$427,260 for the distribution control panel upgrade to be included in the capital additions. As discussed below under Depreciation Section 5.2, the Commission directs that the costs of the new additions for the control panel upgrade be classified in a new capital asset account that is better reflective of its service life.

70. However, going forward, the Commission advises that it will no longer accept sole-sourcing on major project or equipment purchase orders or service contracts obtained by Corix. In order to ensure the public interest is protected while setting just and reasonable rates, the Commission must determine whether costs incurred or forecast in an applicant's revenue requirement are prudent. The onus is on the applicant to substantiate that such costs are prudent. In the Commission's view, it is difficult to satisfy this onus when alternative sourcing options are not explored. For future procurement, the Commission directs Corix to obtain a minimum of three competitive bids when purchasing:

- O&M goods and services with a value over \$25,000; and
- capital project work, such as construction, supervision, engineering or architectural services, with a value over \$100,000.

71. The above values are in line with federal government Public Work and Government Services Canada policies for non-competitive procurement.⁵⁷

72. If three bids for a specific type of equipment or work cannot be obtained, the Commission directs Corix to provide compelling evidence why it could not obtain the three bids. Corix may sole-source contracted work or purchases regardless of value in situations where there is only one supplier who is capable of performing the work, or in emergency situations such as natural disasters like floods.

5.2 Depreciation

73. The Commission observes that in certain asset classes, the service life of the asset did not match the depreciable life of the asset recorded in Corix's rate model, as discussed below.

Water meters

74. For financial purposes in Corix's rate model, water meters are presently depreciated over a period of 35 years.⁵⁸ However, as discussed in its application, Corix has determined the actual service life of water meters should be no longer than 15 years based on manufacturer's recommendations.⁵⁹ The basis of Corix's meter exchange program is that Corix has realized 450 of its meters older than 15 years need to be replaced over the next three years.

⁵⁷ <https://buyandsell.gc.ca/for-government/buying-for-the-government-of-canada/plan-the-procurement-strategy#competitive-procurement>

⁵⁸ Exhibit 27844-X0005, Corix rate model, worksheet "PlantLookup", Excel cell D39.

⁵⁹ Exhibit 27844-X0001, application, PDF page 51, Section 15.1.6.

75. Corix explained that the prior 35-year depreciable life for water meters it put in its application is unchanged from the last rate application (for the years 2012 to 2014),⁶⁰ but that it was not opposed to changing the depreciable life to 15 years. It added that in doing so, it would result in an increase in depreciation expenses thus increasing revenue requirements and customer rates.⁶¹

Commission findings

76. The Commission notes that the applied-for asset service lives in Corix's last rate application for 2012 to 2014 were not questioned by any of the parties, including the Commission, and depreciation based on those applied-for service lives was approved as part of the general approval of the financial schedules and forecast O&M costs in the compliance filing.⁶²

77. The Commission considers that an asset's depreciable life should match its service life to ensure that rates reflect the assets from a utility's rate base that are actually used and useful in providing utility service. Meters that are replaced over the applied-for test years will no longer be used and useful in providing utility service. Allowing a large difference between asset life for depreciation purposes and service life for accuracy and performance allows a replaced meter to remain in the utility rate base for an extended period after it is no longer used and useful.

78. Normally, when contemplating depreciation rates, it is assumed some assets in a class will fail earlier and some will last longer than others in the class. A depreciation rate is selected for an asset class based on the best available information, including the asset class history, and is intended to target an average life of the assets in the class. In this case of the meter replacement program, Corix management has recently determined that meters should not be in the field longer than 15 years due to the potential measurement inaccuracies. The Commission considers this change in predicted service life a utility decision based on information that became available by examining the level of water losses experienced by the utility, the possibility the aged meters were contributing to these losses, as well as renewed consideration of the manufacturer's and Measurement Canada's service life recommendations.

79. The Commission finds that changing the meters' predicted asset life for depreciation purposes to match recommended service life supports just and reasonable ratemaking. This change ensures the depreciation expenses related to meters reflects their actual useful life in service of Corix's water customers and leads to more accurate rates reflective of the costs to serve. Corix has offered to change the predicted service life of meters in the next application; however, the Commission sees no reason why it cannot be implemented immediately in the compliance filing to this application.

80. The Commission directs Corix in its compliance filing to retire the meters being replaced in Account 334 from rate base and to create an amortization of reserve differences (ARD) account, where the difference between the remaining unamortized depreciation expense from 35 years to 15 years is recorded for the replaced meters. The ARD account can be expensed to depreciation using a straight-line method over a period of three years. The accelerated period of

⁶⁰ The prior Corix rate application for the years 2012-2014 was determined in Proceeding 1828 and decided in Decision 2012-262, Part 2 Application for New Water Rates.

⁶¹ Exhibit 27844-X0020, CORIX-AUC-2023MAR03-004(a).

⁶² In paragraphs 23 and 24 of Decision 2013-082, the Commission accepted the forecast O&M costs included in the compliance filing.

three years was determined in order to minimize intergenerational inequities; by accelerating the depreciation, the retired meters are more likely to be paid for by those customers who used them while they were in service and have been paying less in depreciation expense than they would have otherwise been paying if the more accurate service life had been known from the outset.

81. The amount in the ARD account will only collect the remaining unamortized depreciation on the replaced meters, and there will be no additional markup allowed for earning a return on the original cost of replaced meters. Once these assets are removed from service, they are no longer used and useful for providing utility service and should not be left in rate base. However, the ARD account allows the utility to collect from customers any remaining cost of meters that it has not already recovered through depreciation expense. The Commission considers that an ARD account provides a reasonable mechanism to address the unique circumstances raised in this application: when a small water utility that does not use traditional depreciation studies identifies a discrepancy between its previously approved asset life for depreciation and the actual service life of its assets.

Distribution control panel

82. In regard to the distribution control panel, Corix identified that the panel has an undepreciated life of nine years remaining as of January 1, 2022,⁶³ despite also stating that it had been installed “in the early 1990s.”⁶⁴ Corix submitted that the Commission has previously approved the rate base of the water utility after examining the books of the previous owner, write-downs, revaluation, no cost assets transferred to the utility, and historical cost. With these historical issues, Corix further submitted the overall rate base approved by the Commission is appropriate, but given the historical accounting issues, the specific examination of certain accounts on a physical economic life basis may not be fully reflective of the remaining net book value on a financial basis.⁶⁵

Commission findings

83. The Commission notes that the distribution control panel is included in Account 320.3 – Other Water Treatment Equipment, with a depreciable life of 15 years.⁶⁶ Given that the existing panel has been in operation since the early 1990s, the Commission cannot reconcile the 15 years depreciable life of the asset account with Corix’s submission that the existing control panel has been in use for approximately 30 years. Further, the Commission reasons that if the panel has been in service since the early 1990s, the asset would have been fully depreciated by the mid to late 2000s. This does not support the information provided to the Commission by Corix that this asset has nine years of undepreciated life left. While the Commission appreciates the accounting challenges experienced in ownership handovers, this residual undepreciated life is unreconcilable with the totality of information.

84. The Commission believes that it is prudent to replace the distribution control panel, but the Commission views that the depreciation expense for this asset should have been already fully recovered. Accordingly, the Commission directs Corix to remove any residual amounts of the distribution control panel being replaced from rate base in its 2023 forecast.

⁶³ Exhibit 27844-X0020, CORIX-AUC-2023MAR03-004(g).

⁶⁴ Exhibit 27844-X0020, CORIX-AUC-2023MAR03-006(d).

⁶⁵ Exhibit 27844-X0020, CORIX-AUC-2023MAR03-004(g).

⁶⁶ Exhibit 27844-X0005, Corix financial model, worksheet “PlantLookup,” Excel cell D29.

85. The Commission also directs Corix in its compliance filing to place the value of the new control panel in a separate capital asset account with an appropriate service life, as the service life of the control panel being replaced appears to be significantly different than service life assigned to Account 320.3 –Other Water Treatment Equipment. A separate capital account is justified given the cost of the new control panel capital additions compared to the capital account net book value of the present account, (about four times the net book value of the Other Water Treatment Equipment account as of January 1, 2023)⁶⁷ and the apparent difference in asset lives. Corix is directed in its compliance filing to update its financial schedules to accommodate the addition of a new control panel capital account and provide support for its chosen service life for the new control panel.

6 Operating and maintenance

86. Corix forecast total O&M expenses of \$1.180 million, \$1.170 million and \$1.200 million for 2023-2025, respectively.⁶⁸ The total O&M expenses for each year make up approximately 65 per cent, 62 per cent and 61 per cent of the 2023-2025 forecast revenue requirements, respectively. The various cost items that comprise the total O&M expenses are set out in the application⁶⁹ and the financial model.⁷⁰ Corix included a description of each cost item and how the forecasts were derived.⁷¹ The Commission has included the forecast revenue requirements, total O&M expenses and major O&M expenses for 2023-2025 in Table 4.⁷²

Table 4. Forecast revenue requirements, total O&M expenses and major O&M expenses for 2023-2025

	2023 Forecast	2024 Forecast	2025 Forecast
Forecast revenue requirement	\$1,806,172	\$1,887,622	\$1,973,282
Forecast total O&M expenses	\$1,179,619	\$1,169,561	\$1,199,716
Forecast total O&M expenses as a percentage of forecast revenue requirement	65.3%	62.0%	60.8%
Major O&M expenses and % of total O&M expenses			
Corporate services	\$230,453 19.5%	\$236,214 20.2%	\$241,175 20.1%
Common administrative costs	\$159,062 13.5%	\$103,481 8.8%	\$106,783 8.9%
Regional services costs	\$69,116 5.9%	\$70,506 6.0%	\$72,357 6.0%
Total – allocated costs (Note 1)	\$458,631 38.9%	\$410,201 35.1%	\$420,315 35.0%
Salaries and wages	\$283,909 24.1%	\$306,315 26.2%	\$315,393 26.3%
Utilities	\$127,833 10.8%	\$131,668 11.3%	\$134,302 11.2%
Plant and system maintenance	\$88,503 7.5%	\$91,158 7.8%	\$92,981 7.8%
Other O&M Expenses	\$220,743 18.7%	\$230,219 19.7%	\$236,725 19.7%

Note 1 – Amount included may not equal the sum of the numbers in the three rows above, due to rounding.

⁶⁷ Exhibit 27844-X0005, Corix financial model, worksheet “Sch3b,” Excel row 229, Additions and Net Book Value, columns E and P.

⁶⁸ Exhibit 27844-X0001, application, PDF page 33, Table 6.

⁶⁹ Exhibit 27844-X0001, application, PDF page 33, Table 6.

⁷⁰ Exhibit 27844-X0005, Corix financial model, worksheet “Sch6.”

⁷¹ Exhibit 27844-X0001, application, PDF pages 33-47.

⁷² The forecast revenue requirements and the total O&M expenses are from Exhibit 27844-X0005, worksheet “Sch1.” The forecast major O&M expenses are from Exhibit 27844-X0005, worksheet “Sch6.”

87. The following sections include descriptions and assessments of each of the allocated costs, being corporate services, common administrative and regional services, as well as other costs for which the forecasts filed by Corix were not accepted by the Commission.

6.1 Allocated costs

88. Corix is allocated certain costs from other areas within the overall corporate business structure. The Commission understands these represent costs assigned to Corix from corporate parents or other entities to capture support efforts expended for Corix. There are three O&M cost items that include these allocated costs, being the corporate services, common administrative and regional services. The sum of these three cost items represents approximately 39 per cent of the forecast total O&M expenses for 2023, and 35 per cent for 2024 and 2025.

89. In its submission on behalf of the customers, the Customer Group noted that total O&M costs rose from an annual average of \$535,826 in the years 2011 to 2013 to an annual average of \$1,182,965 in the years 2023 to 2025, and it indicated that much of this increase is attributable to substantial increases in corporate overheads.⁷³

90. The Commission has reviewed the record of Corix's last rate application,⁷⁴ which approved rates for 2012, 2013 and 2014.⁷⁵ The Commission-approved revenue requirements for 2012 to 2014 were \$959,008, \$1,032,335 and \$1,069,078 respectively.⁷⁶ The corresponding total O&M costs were \$526,324, \$570,394 and \$590,995⁷⁷ and there were no forecast costs included for corporate services, common administrative or regional services costs for any of those three years.⁷⁸ This means that this is the first application in which Corix has requested approval of allocated corporate services costs, common administrative costs and regional services costs as part of the revenue requirement and associated rates, and this is the first time the Commission will address such a request.

91. As part of the application, Corix provided annual O&M cost information from 2012 onwards. Even though corporate services, common administrative and regional services costs did not form part of the approved revenue requirements and rates for the years 2012 to 2022, Corix included the actual amounts for these costs that it had been allocated for each of those years for 2012 to 2021, along with the projected and actual allocated costs for 2022, and the forecast allocated costs for 2023 to 2025.⁷⁹ The costs are listed in Table 5 below:

⁷³ Exhibit 27844-X0009, Intervener group letter of February 6, 2023, PDF page 1.

⁷⁴ The last rate application consisted of two proceedings: Proceeding 1828 and Proceeding 2193.

⁷⁵ The rates were approved in Decision 2013-082

⁷⁶ Decision 2013-082, paragraph 12. In paragraph 17 of Decision 2013-082, the Commission found that Corix had complied with the direction to file an updated revenue requirement as part of the compliance filing.

⁷⁷ Proceeding 2193, Exhibit 0002.00.CU-2193, worksheet "Rate Base and Rev Req."

⁷⁸ The forecast O&M costs by cost type for 2012 to 2014 included in the compliance filing in Proceeding 2193 were set out on PDF page 3 of Exhibit 0001.00.CU-2193, and in Exhibit 0002.00.CU-2193, worksheet "O&M." In paragraphs 23 and 24 of Decision 2013-082, the Commission accepted the forecast O&M costs included in the compliance filing.

⁷⁹ The actuals for 2012 to 2021, the projected amounts for 2022 and the forecast amounts for 2023 to 2025 are included in Exhibit 27844-X0005, worksheet "Sch6." The actuals for 2022 are included in Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-010(a), PDF page 23.

Table 5. Allocated corporate services costs, common administrative costs and regional services costs: 2012 to 2025

	Corporate services	Common administrative	Regional services	Total	Change year over year ⁸⁰
	(\$)				(%)
2012 actual	305,636	0	0	305,636	
2013 actual	230,317	0	0	230,317	-25
2014 actual	236,043	0	0	236,043	2
2015 actual	230,999	0	0	230,999	-2
2016 actual	207,845	0	0	207,845	-10
2017 actual	217,367	0	0	217,367	5
2018 actual	194,058	0	0	194,058	-11
2019 actual	103,737	0	115,097	218,834	13
2020 actual	165,996	0	70,526	236,522	8
2021 actual	160,371	0	71,753	232,124	-2
2022 projected	206,800	184,530	132,869	524,199	126
2022 actual	203,355	206,705	130,102	540,162	
2023 forecast	230,453	159,062	69,116	458,631	-15
2024 forecast	236,214	103,481	70,506	410,201	-11
2025 forecast	241,175	106,783	72,357	420,315	2

6.1.1 Corporate services costs

92. Corporate services costs are incurred at a corporate parent level and fund support functions that provide a variety of services for Corix Infrastructure Inc.'s (CII) business units.⁸¹ Corix provided a summary of the categories of corporate services costs incurred and a description of the associated functions.⁸² It also provided the amount of the 2023 forecast allocated corporate services by cost category, which is set out in Table 6.⁸³ Corix indicated that the employees who encompass the corporate services costs work for CII and Water Services Corporation.⁸⁴

Table 6. 2023 forecast allocated corporate services costs by category

	2023 forecast (\$)
Executive management	15,119
Customer experience	20,924
Regulatory support and operational technology	13,370
Corporate finance and financial planning and analysis	14,184
Accounting and tax	16,783
Human resources	13,556
Corporate communication	3,975
Information technology	78,318
Accounts payable	4,290
Support services management	8,187
Customer billing	6,265
Procurement	2,105
Fleet	7,601

⁸⁰ Change in total year over year. The 2022 actual to projected variance is not calculated as it is not a year over year calculation.

⁸¹ Exhibit 27844-X0001, application, PDF pages 40-41.

⁸² Exhibit 27844-X0001, application, PDF pages 41-42, Table 8.

⁸³ Exhibit 27844-X0001, application, PDF page 43, Table 10.

⁸⁴ Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-024, PDF page 41.

	2023 forecast (\$)
Continuous improvement	3,748
Health, safety and environment	6,634
Legal and risk management	14,160
Internal audit	1,233
Total (Note 1)	<u>230,453</u>

Note 1 – Total included may not equal the sum of the numbers reported above, due to rounding.

93. Corix stated that pooling the support functions and providing the services across multiple business units results in multiple benefits, namely increased efficiencies through economies of scale, functionality and cost-effectiveness. It submitted that shared resource initiatives are a more efficient and cost-effective approach than having each business unit procure the services independently. Corix stated that certain capabilities, including some relating to customer interface options, cannot be cost-effectively provided by small utilities operating on a stand-alone basis.⁸⁵

94. Corix explained that the corporate services costs are allocated to each business unit using a composite allocator that gives equal weighting to gross revenue, headcount and gross property, plant and equipment.⁸⁶ It noted that the forecast allocated costs for 2023 of \$230,453 are based on the composite allocator figures as of June 30, 2022. An escalator of 2.5 per cent was added to the 2023 forecast to arrive at the 2024 forecast of \$236,214, and an escalator of 2.1 per cent was added to the 2024 forecast to arrive at the 2025 forecast of \$241,175. Corix indicated that these costs represent an allocation of less than one per cent of CII's total corporate services costs.⁸⁷

95. The Customer Group submitted that CII needs to demonstrate that the Corix water utility benefits from the corporate costs it is allocated. It submitted that the burden is clearly on CII/Corix to demonstrate that the corporate costs generated by the cost allocation model are just and fair, and would reasonably have been incurred if Corix was a stand-alone utility.⁸⁸

96. The Customer Group referred to an application from EPCOR Water (West) Inc. for the French Creek water utility on Vancouver Island. The Customer Group suggested this utility was a reasonable comparator for Corix's water operations. It submitted that the French Creek water utility is similar in scale to Corix and has a forecast 2023 revenue requirement of \$1.75 million that includes inter-corporate charges of \$167,000, compared to the \$300,000 for similar cost categories in the Corix application.⁸⁹

97. Corix responded to the cost comparisons made by the Customer Group for the French Creek water utility. Corix replied that it is not fully aware of how the French Creek water utility is operated, the customer profile, cost structure, water treatment technology used, organizational structure, economies of scale and scope, and how the French Creek water utility is allocated its overhead costs. Corix added that given the lack of information, it is unable to determine whether French Creek is a truly comparable water utility. It submitted that comparison of water utilities is

⁸⁵ Exhibit 27844-X0001, application, PDF page 42.

⁸⁶ Exhibit 27844-X0001, application, PDF pages 42-43.

⁸⁷ Exhibit 27844-X0001, application, PDF page 44, Table 11.

⁸⁸ Exhibit 27844-X0012, Intervener group letter of February 16, 2023, PDF pages 1-2.

⁸⁹ Exhibit 27844-X0012, Intervener group letter of February 16, 2023, PDF page 2.

a difficult exercise, because each water utility with its unique customer base and water treatment technology can have dramatically different costs that are not directly comparable.⁹⁰

6.1.2 Common administrative costs

98. Common administrative costs are incurred for the Calgary business unit to provide administrative services for Foothills Water, the Foothills Wastewater and the Alberta O&M contract department. Corix indicated that the following costs are allocated: salaries and benefits for one area manager and a 0.5 administrator;⁹¹ operator safety and development training; office supplies and equipment; computer expenses; rent; building expenses; communications; postage; shop and safety supplies; education; training; memberships and dues; and travel and vehicle costs not fully charged to a utility.⁹²

99. The allocated common administrative costs projected for Corix for 2022 are \$184,530, representing 40 per cent of the total common administrative cost pool for Calgary. The allocated cost forecasts are \$159,062 in 2023, \$103,481 in 2024 and \$106,783 in 2025, representing 41 per cent of the total common administrative costs forecast for these years.⁹³

100. Corix explained that the common administrative costs have existed historically, but no allocation was given to the water utility and the wastewater utility until 2022, following an organizational restructuring.⁹⁴ It indicated that the area manager position was created in 2021 as a result of an organizational structure change.⁹⁵

101. Corix indicated that prior to the common administrative costs being allocated to individual utilities and O&M contract businesses, these costs were not allocated to any revenue generating business within the Corix Group of Companies. It added that the costs resided in a subsidiary named Corix Utilities Inc. (CUI) and were treated as overhead costs of that corporation and were not recovered.⁹⁶

102. Corix stated that in 2021 the Canadian Utilities leadership team, all of whom are employees of CII, began the organizational combination of two separate Canadian business units, namely the Canadian water utilities and the Canadian district energy utilities. This was initiated as both business units were placed under the same leadership and were supported by the same back-office team. Corix submitted that the restructuring was necessary to provide consistency across all groups, consistency on operational organization and cost allocation methodologies. It noted that the approach taken was to ensure all utilities were charged their fair amount of common administrative costs, regional services costs and corporate costs. Corix stated that in the past these costs were not always allocated to the utilities in a consistent manner and that the decision to allocate these costs was made by the leadership team.⁹⁷

⁹⁰ Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-040, PDF page 79.

⁹¹ Corix provided a list of the responsibilities for the area manager and the administrator in Exhibit 27844-X0001, application, PDF pages 38-39.

⁹² Exhibit 27844-X0001, application, PDF pages 37-38.

⁹³ Exhibit 27844-X0001, application, PDF page 40, Table 7.

⁹⁴ More information was provided in Exhibit 27844-X0020, response to CORIX-AUC-2023MAR03-027, PDF pages 44-45.

⁹⁵ Exhibit 27844-X0001, application, PDF pages 37-38. More information was provided in Exhibit 27844-X0020, response to CORIX-AUC-2023-MAR03-028, PDF pages 45-46.

⁹⁶ Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-027, PDF page 45.

⁹⁷ Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-027, PDF page 44.

103. Corix explained that as part of the organizational restructuring in 2021, it was identified that an area manager position was needed in the Calgary region. It noted that this leadership was previously provided by the Operations Manager role that was eliminated. Corix stated that both roles were comparable, but the Operations Manager costs were never allocated down to Foothills Water. It added that the area manager role was modified from the Operations Manager's role, to establish consistency across the business units, provide expertise to area supervisors, and provide added focus on safety and compliance policies and procedures. Corix indicated that at the same time as the expansion of this role, the costs began to be allocated down to each of the businesses, including Foothills Water, correctly for the first time.⁹⁸

6.1.3 Regional services costs

104. Regional services costs are incurred for the Canadian business unit to provide operational services specifically for utilities within Canada, and originate from CUI.⁹⁹ Corix indicated that these costs consist of salaries and benefits for support staff responsible for the Canadian region, office building costs, equipment, telephone, travel, training and vehicle expenses, external consulting costs and depreciation costs associated with common assets. It noted that from 2023 onwards, costs for staff related to the Canadian district energy business have been omitted from the allocated costs.¹⁰⁰

105. Corix explained that while corporate services costs are incurred to provide services to CII's businesses in Canada and the United States, regional services costs are incurred to provide services only to businesses in Canada.¹⁰¹

106. The allocated regional services costs projected for Corix for 2022 are \$132,869, representing 3.17 per cent of the total costs. The allocated costs forecasts are \$69,116 in 2023, \$70,506 in 2024 and \$72,357 in 2025, representing 4.22 per cent of the total regional services costs forecast for these years.¹⁰² Corix noted that the allocation of the regional services costs is based on the same allocations developed for the corporate services costs.¹⁰³

107. Corix explained that it started to receive allocations of regional services costs in 2019 because the regional cost centre was created in 2019 to track regional costs separate from corporate services costs. It stated that the decision to separate these costs from that of the corporate services category and to push down these costs to the utilities located in Canada was made by the leadership team. Corix indicated that 2019 was the first year that the corporate allocation model was in place and the regional costs needed to be addressed as well.¹⁰⁴

108. Corix submitted that the rationale for deciding that these costs should be allocated to Foothills Water is consistency with cost causation and cost recovery practices in the industry. It stated that these are shared costs incurred for the Canadian business unit to provide operational services specifically for utilities within Canada and therefore, it is just and reasonable to recover these costs from the applicable utility businesses. Corix indicated that in the past these costs were

⁹⁸ Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-028, PDF pages 45-46.

⁹⁹ Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-029, PDF pages 46-47.

¹⁰⁰ Exhibit 27844-X0001, application, PDF page 47.

¹⁰¹ Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-029, PDF page 47.

¹⁰² Exhibit 27844-X0001, application, PDF page 47, Table 12.

¹⁰³ Exhibit 27844-X0001, application, PDF page 47.

¹⁰⁴ Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-029, PDF page 47.

not always allocated down in a consistent manner and often remained unrecovered in various businesses.¹⁰⁵

6.1.4 Commission findings on allocated costs

109. This application contains three explicit cost categories that were not included in the revenue requirements for the 2012-2014 application: corporate services; common administrative; and regional services. As previously mentioned, Corix provided the amount of the 2023 forecast allocated corporate services by cost category as part of the application. No other information by cost category was provided as part of the application.

110. The Commission was required to issue IRs and additional direction to Corix in order to receive more details of the allocated costs by cost category for 2021 to 2023. Even then, the information provided by Corix in confidential exhibits 27844-X0036-C to 27844-X0041-C was not presented in an organized manner nor was it summarized by cost category, but rather was listed by each expense account number, and there was no information allowing each expense account number to be assigned to a cost category.

111. Even with the breakdown by expense account number, significant Commission effort was necessary to extract and assess what expenses were allocated to Corix in 2021, 2022 and 2023. Corix stated that “Corix has provided all the relevant files in the manner used by staff at Corix. Due to the nature, size and complexity of the files, Corix could not reasonably rebuild the financial models to present the information in a side-by-side manner as requested by the AUC. However, Corix submits that all the information requested has been provided.”¹⁰⁶ Given the significance of the forecast allocated costs to Corix’s revenue requirement, and the fact that it is Corix’s burden to demonstrate that its rates are just and reasonable, this information should have been made available more readily and in a format that would allow the Commission to understand and scrutinize each cost category. Notably, the forecast total allocated costs for 2023-2025 are in excess of \$400,000 per year. As set out in Table 6, the 2023 forecast for regulatory support and operational technology alone is \$13,370.

112. This is the first application for which Corix is requesting approval of corporate services, common administrative and regional services costs. These three cost types account for 39 per cent of the 2023 forecast total O&M costs and 35 per cent of the 2024 and 2025 forecast total O&M costs. Given that the utility has been operating in a safe and reliable manner for many years without inclusion of these costs in its revenue requirement, the Commission considers that Corix must clearly demonstrate how these new costs are tied to its provision of service to customers. As the Customer Group suggested, and the Commission concurs, concluding that rates are just and reasonable requires clear and compelling demonstration that an expense or expenditure results in tangible and necessary service to the ratepayers or allows the utility to provide reliable and safe service. Based on its review of the record, the Commission finds that the information provided by Corix in support of these costs was inadequate and does not substantiate the requested forecast amounts for 2023-2025.

113. In a rates application, the Commission is required to assess the utility’s cost and service structures to determine if the requested rates are just and reasonable. In part, this requires the Commission to determine if operations and maintenance and capital expenditures are necessary

¹⁰⁵ Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-029, PDF page 48.

¹⁰⁶ Exhibit 27844-X0034, PDF page 3.

to provide safe, reliable provision of utility services to the public. When an application contains broad categories of allocations assessed against the utility by other corporate entities, and the dollars involved are not explicitly linked to a necessary function of the utility, it is difficult to conclude that the expenditure is necessary and that the resultant rates are just and reasonable.

114. Between the 2012 and 2014 rates period and the current test period, a variety of changes were made in the interactions between different corporate entities involved with Corix. The creation of two new allocation categories that represent mostly new costs for revenue calculation is the most impactful in considering just and reasonable rates. The increase in the corporate service allocation that coincides with this filing also increased year over year. Generally, the applicant described the allocation as a tool to distribute the costs of support services provided at a corporate level so that the expenses are fairly and reasonably allocated to a number of business functions that use those services.

115. For example, with corporate services cost allocation, Corix reported that the pooling of support activities brought benefits through economies of scale particularly for smaller utilities. The allocation of those costs is done using a composite allocator that considers gross revenue, headcount, and gross property, plant and equipment. The allocation does not directly consider use of a service by a given utility, but uses proxy values like headcount to assess likely employment of the common services such as human resources or health, safety and environment.

116. This approach is rational and defensible as a business' financial strategy. However, it does not directly answer the question asked by the Customer Group, which is how customers benefit from these services. Nor does it satisfy the Commission's mandate to determine whether inclusion of the costs in customer rates is just and reasonable, in the sense that customers are paying no more than what is necessary for the service that they receive. With respect to costs allocated to a utility by a corporate affiliate, this requires some demonstration that the costs are necessary for the provision of utility service. It is insufficient to point to corporate structure linking the two entities and assert that leadership had determined that corporate support costs should be distributed across the supported business units.

117. As one example, the forecast corporate services expenses for 2023 by cost category provided by Corix, and as set out in Table 6 of this decision, included in excess of \$78,000 for the IT cost category. Corix's direct IT costs forecast for 2023 was \$2,002. While there could be some benefits flowing to Corix from that corporate services allocation, the increased amount of benefits commensurate with the increased amount of costs was not demonstrated by the applicant in spite of the Commission requesting additional information and rationale. Without that justification, it is impossible for the Commission to assess if it is just and reasonable for a small water utility to pay over 30 times its direct IT costs in IT cost allocations from corporate entities.

118. The challenge in the framework of assessing just and reasonable rates is those allocations from other corporate entities must be tested with the same degree of precision and accuracy as the direct costs forecast. Corporate business decisions on how costs are allocated do not fall under the oversight of the Commission, except when those dollars are included in revenue requirement and used to establish rates, something fully within the Commission's jurisdiction. Therefore, allocations from other corporate entities assigned to the utility and included in revenue requirements, regardless of what allocation methodology is employed, must include the same level of detail as expected for the direct operations and maintenance and capital costs for the utility. In this case, that same level of detail was not provided.

119. Corix submitted that, with respect to the corporate services costs, it is “receiving a vast array of specialized corporate services at a price that is less than it would incur if it were to obtain all of these services on a standalone basis.”¹⁰⁷ The Commission finds that Corix has not justified this submission, because no information was presented demonstrating that a small water utility operating solely in Alberta would require all of these services to operate on a standalone basis, and no compelling evidence was provided that substantiates Corix’s claim that if these services were required for Corix to operate, it would be unable to obtain these services at a lower cost.

120. In the absence of any cost information by cost category for the common administrative costs and the regional services costs, the Commission is unable to determine whether the forecast costs for these areas are reasonable. The Commission is also unable to determine whether there is overlap between the cost categories for the corporate services, common administrative and regional services costs. For example, the corporate services costs include the cost category of corporate finance and financial planning and analysis. The regional services costs described by Corix include salaries and benefits for support staff responsible for the Canadian region, including “financial planning and analysis.”¹⁰⁸ The same situation holds true for regulatory. The corporate services costs include the cost category of regulatory support, and the regional services costs description includes salaries and benefits for regulatory support staff.¹⁰⁹

121. Likewise, the responsibilities of the area administrator provided by Corix, which is included under common administrative, includes the performing of “accounts payable/receivable duties in compliance with company policies and procedures, including the timely processing of invoices, issuing purchase orders, and maintaining accounting records.”¹¹⁰ This overlaps with the accounts payable and accounting and tax cost categories of the corporate services costs.

122. Without a full picture of the total costs for each cost category across the three allocated costs areas, the Commission is unable to assess whether the total costs being allocated to Corix for each cost category are reasonable, and whether they represent economies of scale savings or whether they are more cost-effective than Corix providing the services on its own.

123. In the absence of sufficient supporting evidence, the Commission finds that, viewed objectively, Corix’s applied-for total allocated costs appear excessive considering the relative size of the utility operations, the small number of customers, and the small number of full-time personnel who operate the water system.

124. The Commission finds that it is reasonable to include some level of allocated costs for 2023-2025, because there are certain services that are required that are not part of the direct O&M costs. These include accounts payable, customer billing, information technology, accounting and tax, human resources and regulatory. As explained above, the evidence provided by Corix does not enable the Commission to determine a reasonable level of the costs for these or any other cost categories. Consequently, the Commission will approve a single total allocated costs amount for 2023, 2024 and 2025 that will cover all three allocation categories: corporate, regional, and common administrative costs.

¹⁰⁷ Exhibit 27844-X0001, application, PDF page 46.

¹⁰⁸ Exhibit 27844-X0001, application, PDF page 47.

¹⁰⁹ Exhibit 27844-X0001, application, PDF page 47.

¹¹⁰ Exhibit 27844-X0001, application, PDF page 39.

125. The Commission considers that the best comparator on the record for the level of allocated charges is EPCOR's French Creek water utility located in British Columbia, while its corporate head office is in Edmonton, Alberta. This similarly small, corporate parent-owned water utility serves a few thousand customers and has a comparable revenue requirement to Corix. This utility is allocated costs from two parent level companies, EPCOR Utilities Inc. and EPCOR Water Services Inc. The French Creek comparison was initially raised by Customer Group, which referred Corix towards EPCOR Water (West) Inc.'s 2021-2023 revenue requirement and rates application (French Creek Application).¹¹¹ In order to ascertain Corix's views on the use of French Creek as a comparator, the Commission issued an IR asking Corix to comment on allocated costs for French Creek as set out in the French Creek Application. The Commission has reviewed Corix's response to this IR, as well as Appendix E-1,¹¹² Appendix E-2¹¹³ and Appendix E-3¹¹⁴ of the 2021-2023 French Creek Application, and notes that after even after a high level review, a majority of the cost categories for which corporate services costs are allocated to Corix are similar to the corporate services provided by the French Creek water utility's corporate parents.¹¹⁵

126. The Commission recognizes Corix's position that comparisons between water utilities are challenging in the absence of detailed knowledge of the unique customer base, water treatment technologies, cost structure and impact of corporate economies of scale and scope. Nevertheless, the Commission maintains the view that French Creek is a helpful comparator, having regard to the characteristics it does share with Corix. For that reason, the Commission has considered the example of French Creek, in conjunction with its own expertise and Corix's historical costs, to determine a reasonable costs allocation.

127. Table 5.0-1 of the 2021-2023 French Creek Application, which was replicated in the IR to Corix, provides a list of the utility's operating costs. It shows that the 2023 forecast inter-corporate service charges are \$167 thousand and the total 2023 forecast operating service charges are \$1,179 thousand. Table 5.1-1 of the 2021-2023 French Creek Application is located under the salaries and benefits section of operating costs, and includes FTE information. In Table 5.1-1, there are 0.45 FTEs forecast for EPCOR's Alberta-based staff. The Commission considers that the costs for these 0.45 FTEs should form part of the corporate services comparison because the corporate services personnel are based in Alberta. This is a situation similar to Foothills Water, where the corporate services personnel are based in the same province as the corporate parent, but in a province other than where the utility is located.

128. Table 5.1-2 of the 2021-2023 French Creek Application is under the salaries and benefits area of operating costs, and includes gross salaries and benefits per FTE. Table 5.1-2 includes a forecast of \$138 thousand for salaries and benefits per FTE for 2023. Applying this per FTE forecast to French Creek's 0.45 Alberta-based FTEs results in a cost of \$62 thousand. Adding

¹¹¹ Exhibit 27844-X0012, Letter of concern and questions from all residential customers, PDF page 3.

¹¹² Service agreement between EPCOR Water Services Inc. and EPCOR Water (West) Inc.

¹¹³ EPCOR Utilities Inc. corporate services charges allocation methodology.

¹¹⁴ EPCOR Water Services Inc. Shared and Direct Charges Allocation Methodology.

¹¹⁵ The Commission notes the following cost categories: executive management (Appendix E-1, page 15); regulatory support and operational technology (Appendix E-1, page 23); corporate finance and financial planning and analysis (Appendix E-1, pages 16-17); accounting and tax (Appendix E-1, pages 16 and 21); human resources (Appendix E-1, pages 17 and 23); corporate communication (Appendix E-1, pages 19 and 22); information technology (Appendix E-1, pages 18 and 22); accounts payable (Appendix E-1, page 16); procurement (Appendix E-1, pages 18 and 23); health, safety and environment (Appendix E-1, pages 18 and 20); legal and risk management (Appendix E-1, pages 17 and 19); and internal audit (Appendix E-1, page 17).

this \$62 thousand to the \$167 thousand 2023 forecast inter-corporate service charges results in a total of \$229 thousand, which the Commission considers is the figure to use as the basis of its comparator for allocated charges. This \$229 thousand is 24.1 per cent of the total 2023 non-corporate forecast operating costs for the French Creek water utility.¹¹⁶

129. The Commission considers that the proportion of total allocated operating costs to total non-corporate operating costs for Corix for 2023 should roughly approximate the same proportion as the French Creek water utility. Notwithstanding the potential distinguishing factors between the two utilities identified by Corix, the Commission can find no compelling rationale why French Creek can run its similar-sized water utility prudently with a much lower level and cost of corporate support. This dramatic difference is clear, comparing the 24.1 per cent allocation at French Creek to a similar calculation using the 2023 Corix forecast, showing that the corporate allocations are 63.6 per cent of the total non-corporate forecast operating costs for Corix.¹¹⁷ Corix identified several discriminators that distinguish French Creek as the basis for a direct comparison. The Commission will, however, consider 24.1 per cent to be a rough approximation of the order of magnitude of corporate allocations for a small water utility.

130. Having reviewed Corix's application and submissions on costs allocations, the Commission considers a more reasonable basis for total corporate allocations to be the five-year average of actual costs reported between 2017 and 2021. Total corporate allocations as shown in Table 5 are relatively constant between 2012 and 2021, and only display a sharp increase in the 2022 projections filed for this application. This reflects the addition of common administrative charges and increases in both corporate services and regional services for a year-over-year increase of about 126 per cent.

131. The five-year average 2017 to 2021 adjusted using the Canada CPI for historical inflation rates¹¹⁸ until and including 2022, followed by three per cent increases for 2023 to 2025, provides a total allocation of \$252,213 for 2023. The assumptions used are shown in the table below:

Table 7. 2023 to 2025 total deemed allocated costs calculations

Year	Inflation rate (%)	Actuals (\$)	Adjusted to 2021 \$ (\$)
2017	N/A	217,367	235,936
2018	2.3	194,058	205,900
2019	1.9	218,834	227,858
2020	0.7	236,522	244,564
2021	3.4	232,124	232,124
5 Year Average in 2021 \$			229,276
5 Year Average Inflated for each year:			
2022	6.8		244,867
2023	3.0		252,213
2024	3.0		259,779
2025	3.0		267,573

¹¹⁶ Total O&M costs are \$1,179 thousand. Deducting the corporate charges of \$229 thousand leaves \$950 thousand. $\$229/\$950 = 24.1\%$.

¹¹⁷ Total 2023 forecast O&M costs of \$1,179,619. Deduct \$159,062 for common administrative, deduct \$230,453 for corporate services, deduct \$69,116 for regional services, leaves \$720,988 for total non-corporate O&M costs. $\$458,631/\$720,988 = 63.6\%$.

¹¹⁸ Statistics Canada:
www150.statcan.gc.ca/t1/tb11/en/tv.action?pid=1810000501&pickMembers%5B0%5D=1.2&cubeTimeFrame.startYear=2016&cubeTimeFrame.endYear=2022&referencePeriods=20160101%2C20220101

132. The Commission approves \$252,213 as the total deemed allocated costs for Corix for 2023. This deemed allocated cost level encompasses the corporate services, common administrative and regional services costs for 2023, and represents 34.9 per cent of the total 2023 non-corporate forecast operating costs for Corix.¹¹⁹

133. In addition to being roughly congruous with the French Creek comparator, the Commission considers that this amount is just and reasonable based on the Commission's application of its own discretion and expertise, and having regard to nature and scope of the service provided by Corix and the particular information submitted with this application.

134. The Commission directs Corix, in the compliance filing to this decision, to include \$252,213 as the forecast for 2023 for the total allocated costs in place of its corporate, common administrative and regional costs forecast.

135. The Commission considers that the majority of corporate service type allocated costs are labour costs, so it will apply the labour escalators of three per cent in 2024 and 2025 that Corix requested in determining the 2024 and 2025 forecasts. The Commission has approved these labour escalators, as explained in the salaries and wages section of the decision.

136. The Commission directs Corix, in the compliance filing to this decision, to include \$259,779 as the forecast for 2024 for the total allocated costs in place of its corporate, common administrative and regional costs forecast. The 2024 forecast is the 2023 forecast approved amount of \$252,213 plus three per cent labour escalation.

137. The Commission directs Corix, in the compliance filing to this decision, to include \$267,573 as the forecast for 2025 for the total allocated costs in place of its corporate, common administrative and regional costs forecast. The 2025 forecast is the 2024 forecast approved amount of \$259,779 plus three per cent labour escalation.

6.2 Salaries and wages

138. Operating and management staffing for Corix's water and wastewater utilities consists of four operators, one area supervisor and summer student workers.¹²⁰ Corix stated that 3.0 full-time equivalents (FTEs) are required to operate the water utility effectively and efficiently.¹²¹ For 2023 to 2025, Corix forecast 2.3 FTEs for operators¹²² and 0.7 FTE for the area supervisor being charged to the water utility.¹²³ Corix indicated that the actual number of operator FTEs charged to the water utility was 1.8 in 2020, 2.0 in 2021 and the projected number of FTEs was 1.7 in 2023. The actual number of FTEs for the area supervisor charged to the water utility was 0.7 in 2020 and 2021, and the projected number for 2022 was also 0.7.¹²⁴

¹¹⁹ Total 2023 forecast O&M costs of \$1,179,619. Deduct \$159,062 for common administrative, deduct \$230,453 for corporate services, deduct \$69,116 for regional services leaves \$720,988 for total non-corporate O&M costs. $\$252,213/\$720,988 = 34.9\%$.

¹²⁰ Exhibit 27844-X0001, application, PDF page 35.

¹²¹ Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-017, PDF page 32.

¹²² Consists of 2.0 full-time operators and 0.3 summer student operators. See Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-017, PDF page 32, Table 1, and Exhibit 27844-X0001, application, PDF page 37.

¹²³ Exhibit 27844-X0001, application, PDF pages 35-37.

¹²⁴ Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-017, PDF page 32, Table 1.

139. Corix explained that through 2021 and 2022, it experienced difficulty meeting the 2.3 operator FTEs because of employee turnover and the unavailability of summer students. It indicated that it expects to be able to meet the 2.3 operator FTEs going forward into 2023.¹²⁵

140. The projected salaries and wages costs for 2022 were \$225,664. The forecast costs for 2023-2025 are \$283,909, \$306,315 and \$315,393, respectively.¹²⁶ The forecast costs for 2023-2025 represent approximately 25 per cent of the total O&M expenses for these years.

141. The difference between the 2022 projected salaries and wages costs of \$225,664 and the 2023 forecast of \$283,909 is \$58,245. Corix explained that \$9,311 of the difference is accounted for by the labour escalator used for 2023, that \$3,640 of the difference is for forecast additional time spent by a summer student in the water treatment plant in 2023, and the remaining \$45,294 of the difference is attributable to the hiring delays in 2022.¹²⁷

142. The difference between the 2023 forecast salaries and wages costs of \$283,909 and the 2024 forecast of \$306,315 is \$22,406. Corix explained that the reasons for this increase are \$7,199 for the labour escalator and \$15,207 for additional salary increases for operator certification advancement. Corix stated that given the challenges it and the market as a whole have experienced in attracting and retaining qualified staff, it built an increase into the forecast to account for additional certifications that an operator is planning for and striving to achieve. It indicated that this is to facilitate the professional development of the operations staff, enable succession planning and assist with staff retention.¹²⁸

143. The difference between the 2024 forecast salaries and wages costs of \$306,315 and the 2025 forecast of \$315,393 is \$9,078. This increase is due to the labour escalator.¹²⁹

Commission findings

144. The Commission accepts Corix's forecast of 0.7 FTEs for the area supervisor for 2023-2025, as this is consistent with the actuals for 2020 and 2021, and the projected number for 2022.

145. While Corix stated that it expects to be able to meet the 2.3 operator FTEs forecast for 2023 to 2025, the Commission is not convinced that this will be the case. Corix provided no specific reasons why it will be able to achieve this forecast. The actual operator FTEs were 1.8 for 2020 and 2.0 for 2021, and the projected number for 2022 was 1.8, so over the last three years, Corix has never had 2.3 operator FTEs. The Commission finds that a more reasonable forecast for 2023-2025 is 1.9 operator FTEs in each year, which is the average of the actual operator FTEs for 2020 and 2021 and the projected operator FTEs for 2022.

146. The Commission finds that the use of the labour escalators of 4.3 per cent for 2023, three per cent in 2024 and three per cent in 2025 are reasonable and agrees with Corix that these rates will maintain salaries at a level equal to or higher than the Bank of Canada's inflation projections for 2023, 2024 and 2025.

¹²⁵ Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-017, PDF page 32.

¹²⁶ Exhibit 27844-X0001, application, PDF page 33, Table 6.

¹²⁷ Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-017, PDF page 33.

¹²⁸ Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-017(d), PDF page 33.

¹²⁹ Exhibit 27844-X0001, application, PDF page 32.

147. Corix forecast an increase of \$15,207 in salaries and wages for 2024 related to additional salary increases due to operator certification advancement. This was only disclosed during the IR process. The Commission considers that Corix provided very little detail about this increase. Corix did not describe how the \$15,207 was calculated or the requirements that need to be met for operators to receive this additional salary increase. The Commission finds that Corix has not adequately justified the need for these additional salary increases and therefore denies them.

148. Corix did not provide a breakdown of the forecast 2023-2025 associated salaries and wages costs by position. It did indicate that \$48,934 of the increase in the forecast 2023 salaries and wages over the 2022 projected costs is attributable to \$3,640 for additional summer student time charged to the water utility and \$45,294 for the hiring delays in 2022. This \$48,934 increase is for an additional 0.6 operator FTEs forecast for 2023 compared to the projected operator FTEs in 2022. The Commission has previously found that 1.9 operator FTEs for 2023 is a more reasonable forecast, which results in an increase of operator FTEs in 2023 of 0.2 above the 2022 projected number. The associated increase to the 2023 forecast salaries and wages for the additional 0.2 operator FTEs is therefore one-third¹³⁰ of the \$48,934, which is \$16,311.

149. In order to incorporate the Commission's findings regarding the forecast FTEs and the forecast salaries and wages costs for 2023, the Commission directs Corix, in the compliance filing to this decision, to include \$251,286 for salaries and wages in 2023. This is calculated as the 2022 projected costs of \$225,664, plus \$9,311 for labour escalation, plus \$16,311 for the additional 0.2 operator FTEs approved for 2023.

150. The Commission directs Corix, in the compliance filing to this decision, to include \$258,825 for salaries and wages for 2024. This is an increase of three per cent over the approved 2023 forecast, in line with the Commission-approved labour escalator for 2024.

151. The Commission directs Corix, in the compliance filing to this decision, to include \$266,590 for salaries and wages for 2025. This is an increase of three per cent over the approved 2024 forecast, in line with the Commission-approved labour escalator for 2025.

6.3 Consulting/outside services

152. Corix explained that the costs for consulting/outside services includes services provided for engineering reviews and analyses along with professional services related to the monitoring and testing of equipment.¹³¹ Corix indicated that these costs will vary from year to year depending on the type of work that is completed and, therefore, it determined that it was reasonable to forecast these costs based on a typical year with primarily routine work and no unexpected costs.¹³²

153. The projected consulting/outside services costs for 2022 were \$44,873. The forecast costs for 2023-2025 are \$46,219, \$47,606 and \$48,558, respectively.¹³³ The forecast costs for 2023 were calculated using the 2022 projected costs, plus inflation of three per cent. The 2024 forecast

¹³⁰ Corix forecast an additional 0.6 operator FTEs in 2023 compared to the 2022 projected number. The Commission has approved an additional 0.2 operator FTEs for 2023 compared to the 2022 projected number. $0.2 / 0.6$ is 0.333, or one-third.

¹³¹ Exhibit 27844-X0001, application, PDF page 34.

¹³² Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-015(c), PDF page 29.

¹³³ Exhibit 27844-X0001, application, PDF page 33, Table 6.

costs were calculated using the 2023 forecast costs, plus inflation of three per cent, and the 2025 forecast costs were calculated using the 2024 forecast costs, plus inflation of two per cent.¹³⁴

154. The 2021 actual costs were \$53,116. Corix indicated that this included \$21,216 of costs that were later back billed to external parties and taken as revenue for the water utility. Corix noted that after the removal of this \$21,216 from the 2021 actuals, the resulting cost of \$31,900 was less than the projected 2022 costs of \$44,873. It explained that the projected costs for 2022 included work that was completed that was beyond regular operations.¹³⁵

Commission findings

155. The Commission finds that using the 2022 projected costs as the base for the 2023 forecast is unreasonable. Corix indicated that the 2022 projected costs included work that was beyond regular operations, and therefore contrary to Corix's submission that it is reasonable to forecast these costs based on a typical year with primarily routine work and no unexpected costs. The Commission considers that it would be more reasonable to use the 2021 restated cost of \$31,900 as the base year for the 2023 forecast. This amount is comparable to the annual average cost of \$29,024 for 2012-2020.¹³⁶

156. The Commission finds that the use of the inflation rates of three per cent for 2023 and 2024, and two per cent in 2025 is reasonable and agrees with Corix that these rates reflect the Bank of Canada's inflation projections for 2023, 2024 and 2025 as reported in the October 26, 2022, monetary policy report.

157. In order to incorporate the Commission's findings regarding the forecast consulting/outside services costs for 2023, the Commission directs Corix, in the compliance filing to this decision, to include \$32,857 for consulting/outside services in 2023. This is calculated as the 2021 actual restated costs of \$31,900, plus \$957 for inflation.

158. The Commission directs Corix, in the compliance filing to this decision, to include \$33,843 for consulting/outside services for 2024. This is an increase of three per cent over the approved 2023 forecast, in line with the Commission-approved inflation rate for 2024.

159. The Commission directs Corix, in the compliance filing to this decision, to include \$34,520 for consulting/outside services for 2025. This is an increase of two per cent over the approved 2024 forecast, in line with the Commission-approved inflation rate for 2025.

6.4 Fleet/vehicles

160. Corix indicated that vehicle costs are tied to the number of hours costed to the utility by the operators and area supervisor. It stated that the forecast fleet/vehicles costs for 2023 were calculated using the forecast FTEs of 2.7, which is the total forecast FTEs of 3.0 less 0.3 FTEs for summer students, who do not have dedicated vehicles. The calculation is 2.7 FTEs \times 1,800 available hours per FTE \times \$8.80 per hour, which results in the 2023 forecast of \$42,768.¹³⁷ The

¹³⁴ Exhibit 27844-X0001, application, PDF page 34.

¹³⁵ Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-015(a) and 015(b), PDF page 29.

¹³⁶ The annual average of \$29,024 for 2012-2020 was calculated using the annual costs reported in Exhibit 27844-X0005, worksheet "Sch6," Excel cells D15 to L15.

¹³⁷ Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-023, PDF page 37.

2024 forecast was calculated by inflating the 2023 forecast by three per cent. The 2025 forecast was calculated by inflating the 2024 forecast by two per cent.¹³⁸

Commission findings

161. In Section 6.2 above regarding the salaries and wages costs, the Commission approved 0.7 FTEs for the area supervisor for 2023 and 1.9 FTEs for operators for 2023, for a total of 2.6 FTEs. Deducting the forecast 0.3 FTEs for summer students from this total results in 2.3 FTEs to use in the calculation of the fleet/vehicles costs for 2023. The revised calculation is 2.3 FTEs × 1,800 available hours per FTE × \$8.80 per hour, which results in a 2023 forecast of \$36,432. The Commission directs Corix, in the compliance filing to this decision, to include \$36,432 for fleet/vehicle costs in 2023.

162. The Commission has previously found that the use of the inflation rates of three per cent for 2024 and two per cent in 2025 are reasonable.

163. The Commission directs Corix, in the compliance filing to this decision, to include \$37,525 for fleet/vehicle costs for 2024. This is an increase of three per cent over the approved 2023 forecast, in line with the Commission-approved inflation rate for 2024.

164. The Commission directs Corix, in the compliance filing to this decision, to include \$38,276 for fleet/vehicle costs for 2025. This is an increase of two per cent over the approved 2024 forecast, in line with the Commission-approved inflation rate for 2025.

6.5 Lab testing

165. Corix explained that the costs for lab testing are required to ensure that the potable water meets the objectives for standard potable water quality.¹³⁹

166. The projected lab testing costs for 2022 were \$17,932. The forecast costs for 2023-2025 are \$18,470, \$19,024 and \$19,405, respectively.¹⁴⁰ The forecast costs for 2023 were calculated using the 2022 projected costs, plus inflation of three per cent. The 2024 forecast costs were calculated using the 2023 forecast costs, plus inflation of three per cent and the 2025 forecast costs were calculated using the 2024 forecast costs, plus inflation of two per cent.¹⁴¹

167. While Corix projected \$17,932 for the 2022 costs, the actual costs were \$13,592.¹⁴² Corix indicated that lab testing costs are not consistent year over year and that testing requirements from regulators tend to increase over time, as experienced with the lead testing in 2021. It added that the laboratories where the testing is performed have annual cost increases passed on to the user that must be recouped. For these reasons, Corix submitted that the budget for lab testing for 2023-2025 will be closer to actual costs incurred in recent times.

Commission findings

168. The Commission accepts Corix's submission that lab testing costs tend to increase over time. This is reflected in the increase in the actual costs of \$4,088 in 2020 to \$10,071 in 2021 to

¹³⁸ Exhibit 27844-X0001, application, PDF page 35.

¹³⁹ Exhibit 27844-X0001, application, PDF page 34.

¹⁴⁰ Exhibit 27844-X0001, application, PDF page 33, Table 6.

¹⁴¹ Exhibit 27844-X0001, application, PDF page 34.

¹⁴² Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-010(a), PDF page 23.

\$13,592 in 2022.¹⁴³ The Commission finds that Corix's submission that the forecast for 2023-2025 will be closer to the recent actuals is logical. Therefore, the Commission finds that the forecasts for 2023-2025 should be based on the 2022 actual costs, plus inflation. The Commission has previously found that the use of the inflation rates of three per cent for 2023 and 2024, and two per cent in 2025 is reasonable.

169. In order to incorporate the Commission's findings regarding the forecast lab testing costs for 2023, the Commission directs Corix, in the compliance filing to this decision, to include \$14,000 for lab testing costs in 2023. This is calculated as the 2022 actual costs of \$13,592, plus \$408 for inflation.

170. The Commission directs Corix, in the compliance filing to this decision, to include \$14,420 for lab testing costs for 2024. This is an increase of three per cent over the approved 2023 forecast, in line with the Commission-approved inflation rate for 2024.

171. The Commission directs Corix, in the compliance filing to this decision, to include \$14,708 for lab testing costs for 2025. This is an increase of two per cent over the approved 2024 forecast, in line with the Commission-approved inflation rate for 2025.

6.6 Other miscellaneous expenses

172. Corix indicated that other miscellaneous expenses include expenses for customer freight charges and memberships and dues directly related to the water utility.¹⁴⁴

173. The projected other miscellaneous expenses for 2022 is (\$4,985), a credit balance that acts as a reduction to expenses. The forecast costs for 2023-2025 are \$4,592, \$4,730 and \$4,824, respectively.¹⁴⁵ The 2024 forecast costs were calculated using the 2023 forecast costs, plus inflation of three per cent, and the 2025 forecast costs were calculated using the 2024 forecast costs, plus inflation of two per cent.¹⁴⁶

174. Corix provided a more detailed breakdown of the other miscellaneous expenses for the 2021 actuals, the 2022 projected and the 2023 forecast.¹⁴⁷ The forecast costs of \$4,592 for 2023 comprise \$4,052 for customer freight/courier charges and \$540 for memberships and dues. The corresponding figures for the 2022 projected costs for these two items were \$2,882 and \$195, respectively.

Commission findings

175. The Commission finds that Corix provided no explanation why the customer freight/courier charges forecast for 2023 of \$4,052 is \$1,170 greater than the 2022 projected costs of \$2,882. This forecast increase is 40.5 per cent. In the absence of any support for this forecast increase, the Commission denies the increase applied for. The Commission finds that the 2023 forecast for customer freight/courier charges will be the 2022 projected costs of \$2,882 plus \$86 for inflation using the approved inflation rate for 2023 of three per cent, with the resulting total being \$2,968.

¹⁴³ Exhibit 27844-X0005, worksheet "Sch6," Excel cells L13 and M13.

¹⁴⁴ Exhibit 27844-X0001, application, PDF page 35.

¹⁴⁵ Exhibit 27844-X0001, application, PDF page 33, Table 6.

¹⁴⁶ Exhibit 27844-X0001, application, PDF page 35.

¹⁴⁷ Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-026(b), PDF page 43.

176. The Commission finds that Corix provided no explanation why the memberships and dues forecast for 2023 of \$540 is \$345 greater than the 2022 projected costs of \$195. This forecast increase is 176.9 per cent. In the absence of any support for this forecast increase, the Commission denies the increase applied for. The Commission finds that the 2023 forecast for memberships and dues will be the 2022 projected costs of \$195 plus \$6 for inflation using the approved inflation rate for 2023 of three per cent, with the resulting total being \$201.

177. In order to incorporate the Commission's findings regarding the forecast other miscellaneous expenses for 2023, the Commission directs Corix, in the compliance filing to this decision, to include \$3,169 for other miscellaneous expenses in 2023. This is calculated as the sum of the 2023 customer freight/courier charges approved forecast of \$2,968 and the 2023 memberships and dues approved forecast of \$201.

178. The Commission directs Corix, in the compliance filing to this decision, to include \$3,264 for other miscellaneous expenses for 2024. This is an increase of three per cent over the approved 2023 forecast, in line with the Commission-approved inflation rate for 2024.

179. The Commission directs Corix, in the compliance filing to this decision, to include \$3,329 for other miscellaneous expenses for 2025. This is an increase of two per cent over the approved 2024 forecast, in line with the Commission-approved inflation rate for 2025.

6.7 Information technology

180. Corix indicated that information technology (IT) costs are the annual cost of operations support software. It added that starting in 2023, the costs also include estimates for computer and IT related to the new office located at the water utility.¹⁴⁸

181. The projected IT costs for 2022 were \$1,000. The forecast costs for 2023-2025 are \$2,002, \$2,547 and \$2,598, respectively.¹⁴⁹ The 2025 forecast costs were calculated using the 2024 forecast costs, plus inflation of two per cent.

182. Corix estimated that the additional costs related to the new office would be \$250 for 2023, \$1,000 in 2024 and the same amount escalated each year thereafter.¹⁵⁰

Commission findings

183. Based on the information provided, the Commission finds that Corix has not supported the forecast for 2023. The projected costs for 2022 were \$1,000 and the estimated cost increase related to the new office is \$250. Inflation of three per cent added to the 2022 projected costs is \$30. This is a total of \$1,280. The Commission finds that this is the approved forecast for 2023.

184. Based on the information provided, the Commission finds that Corix has not supported the forecast for 2024. The projected costs for 2022 were \$1,000 and the estimated cost increase related to the new office is \$1,000. Inflation of three per cent added to the 2022 projected costs is \$30 in 2023 and \$31 in 2024. This is a total of \$2,061. The Commission finds that this is the approved forecast for 2024.

¹⁴⁸ Exhibit 27844-X0001, application, PDF page 34.

¹⁴⁹ Exhibit 27844-X0001, application, PDF page 33, Table 6.

¹⁵⁰ Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-018, PDF page 34.

185. The Commission directs Corix, in the compliance filing to this decision, to include \$1,280 for IT costs for 2023 and \$2,061 for 2024.

186. The Commission directs Corix, in the compliance filing to this decision, to include \$2,102 for IT costs for 2025. This is an increase of two per cent over the approved 2024 forecast, in line with the Commission-approved inflation rate for 2025.

6.8 Travel

187. Corix explained that the costs for travel includes costs related to any operator or supervisor meals and travel costs.¹⁵¹ Corix explained that this cost category only reflects travel expenses that can be charged directly to a specific utility; otherwise, the actuals are charged to common administrative costs.¹⁵²

188. The projected travel costs for 2022 were \$500. The forecast costs for 2023-2025 are \$1,750, \$1,803 and \$1,839, respectively.¹⁵³ The 2024 forecast costs were calculated using the 2023 forecast costs, plus inflation of three per cent, and the 2025 forecast costs were calculated using the 2024 forecast costs, plus inflation of two per cent.¹⁵⁴

Commission findings

189. The Commission finds that Corix provided no explanation why the travel costs forecast for 2023 of \$1,750 is \$1,250 greater than the 2022 projected costs of \$500. This forecast increase is 250 per cent. In the absence of any support for this forecast increase, the Commission denies the increase applied for. The Commission finds that the 2023 forecast for travel costs will be the 2022 projected costs of \$500 plus \$15 for inflation using the approved inflation rate for 2023 of three per cent, with the resulting total being \$515.

190. In order to incorporate the Commission's findings regarding the forecast travel costs for 2023, the Commission directs Corix, in the compliance filing to this decision, to include \$515 for travel costs in 2023.

191. The Commission directs Corix, in the compliance filing to this decision, to include \$530 for travel costs for 2024. This is an increase of three per cent over the approved 2023 forecast, in line with the Commission-approved inflation rate for 2024.

192. The Commission directs Corix, in the compliance filing to this decision, to include \$541 for travel costs for 2025. This is an increase of two per cent over the approved 2024 forecast, in line with the Commission-approved inflation rate for 2025.

7 Cost of capital

193. The following sections discuss Corix's applied-for components regarding its capital costs, specifically its capital structure, return on equity (ROE) and cost of debt.

¹⁵¹ Exhibit 27844-X0001, application, PDF page 35.

¹⁵² Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-022, PDF page 37.

¹⁵³ Exhibit 27844-X0001, application, PDF page 33, Table 6.

¹⁵⁴ Exhibit 27844-X0001, application, PDF page 35.

7.1 Capital structure

194. Corix applied for a continuance of its previously approved capital structure set at 40 per cent equity and 60 per cent debt.¹⁵⁵ Corix stated in its application that it believed a higher equity ratio could be justified, but as it had been 10 years since it last filed an application, Corix would consider applying for an adjustment in the capital structure in the next rate application.¹⁵⁶

Commission findings

195. The Commission notes that a similar, small Alberta water utility, Blazer Water Systems Ltd., was awarded the same debt/equity ratio in its 2019-2020 general rate application.¹⁵⁷ In that decision, the Commission found that a small water utility has more business and investor risk than larger regulated utilities. This was in reference to the 2018 generic cost of capital (GCOC) decision, which approved a deemed capital structure of 63 per cent debt and 37 per cent equity for the majority of the utilities, with the exception of AltaGas Utilities Inc. (now called Apex Utilities Inc.), whose deemed capital structure was approved at 61 per cent debt and 39 per cent equity. Therefore, the Commission determined that it was appropriate for a small water utility to be awarded a higher equity ratio than the larger utilities were provided with in the most recent GCOC decision. The Commission finds that there has been no fundamental or material change to Corix's business risk or its operations since the last time its capital structure was addressed by the Commission.

196. The Commission finds a 40 per cent equity ratio continues to be reasonable for Corix and approves Corix's capital structure of 40 per cent equity and 60 per cent debt.

7.2 Return on equity

197. In the application, Corix applied to use an 8.75 per cent ROE to maintain its equity rate with the same rate approved in its last application's decision.¹⁵⁸ In that decision, the Commission stated that it was the Commission's practice to apply the ROE rate established in the most recent GCOC decision to all utilities that the Commission regulates. The Commission referred to the most recent ROE, which at that time was the 2011 GCOC decision,¹⁵⁹ and stated that the approved GCOC rate of 8.75 per cent should be used for an investor-owned water utility.

198. Corix stated in its application that it believes a higher ROE than 8.75 per cent can be justified, but since this is Corix's first application in 10 years, Corix stated it would consider applying for an ROE adjustment in the next rate application.

199. Corix acknowledged that the most recent Commission GCOC decision¹⁶⁰ set the approved ROE rate at 8.5 per cent; however, Corix maintained that it would be just and reasonable to continue its 8.75 per cent ROE because of the relatively higher business risk faced by a small water utility. Corix compared itself to ATCO Gas with its 1.1 million customers in 300 communities being 1,100 times larger than Foothills Water. Corix explained that ATCO Gas could use its other captive customers in one community to pay for any risk or losses incurred in

¹⁵⁵ Decision 2012-262, paragraph 65.

¹⁵⁶ Exhibit 27844-X0001 application, PDF page 59, Section 16.3.1.

¹⁵⁷ Decision 22319-D01-2018: Blazer Water Systems Ltd., 2019-2020 General Rate Application, Proceeding 22319, November 22, 2018, paragraph 187.

¹⁵⁸ Decision 2012-262, paragraph 70.

¹⁵⁹ Decision 2011-474: 2011 Generic Cost of Capital, Proceeding 833, Application 1606549, December 8, 2011.

¹⁶⁰ Decision 26212-D01-2021: 2022 Generic Cost of Capital, Proceeding 26212, March 4, 2021.

another community. Due to Foothills Water's size and limited operations in one community, it cannot transfer the cost and risk to another community, which it stated ATCO Gas was able to do.¹⁶¹

200. Corix noted that the cost of retaining experts in this field to provide evidence justifying the higher business risk faced by a small water utility is unreasonable, and estimated that such evidence could cost up to \$75,000. However, Corix stated it knows of no evidence to support an assertion that a large natural monopoly like ATCO Gas has the same business risk as a small water utility like Foothills Water, and that it is clear on its face Foothills Water has a higher business risk than ATCO Gas. Corix submitted that when considering this, the 8.75 per cent proposed ROE for Foothills Water is reasonable and that a higher ROE may be justified well above 8.75 per cent, given the risks of a small utility.

201. Corix also referred to British Columbia Utilities Commission (BCUC) decisions supporting a higher approved ROE for small utilities. One decision was a 2014 BCUC decision regarding Thermal Energy System (TES) projects (Corix described them as small utilities) where an equity ratio of four per cent higher than the benchmark was approved. In a subsequent BCUC GCOC Stage 2 decision, the BCUC referred to the aforementioned TES decision, in addition to expert evidence in that proceeding, and found a 75 basis point default equity risk premium was appropriate.¹⁶² Based on this, the BCUC awarded two of Corix's TES utilities a 75 basis point equity risk premium (in 2015 and 2021) and in 2019 another TES utility received a 100 basis point premium. Corix also referred to one of its BC water utilities, Panorama Water, which in 2021 had an ROE approved of 9.5 per cent, including a 75 basis point premium above the BCUC utility benchmark. Corix stated that in the BCUC decision, when approving the capital structure, it noted the risk profile of Panorama Water was similar to the very small thermal utilities regulated by the BCUC.¹⁶³

202. A submission filed by A. Hart on behalf of the Customer Group stated that Corix benefitted from the elevated rate of 8.75 per cent (compared to the more recently approved GCOC ROE of 8.5 per cent by the Commission) over the last 10 years as a result of the 2012 decision.¹⁶⁴ The Customer Group believed that an ROE of 8.5 per cent is justified given more recent Commission decisions for similar utilities in Alberta.

Commission findings

203. In the Commission's most recent GCOC decision, setting the 2023 GCOC parameters, the Commission found:

3. The parameters for the various investor-owned water utilities under the Commission's jurisdiction were not determined in this proceeding. However, the determinations in this proceeding may be considered in other proceedings, should issues respecting ROE and deemed equity ratios arise in the regulation of investor-owned water utilities.¹⁶⁵

¹⁶¹ Exhibit 27844-X0001 application, PDF page 63, Section 16.3.3.

¹⁶² Exhibit 27844-X0001 application, PDF page 64, Section 16.3.3.

¹⁶³ Exhibit 27844-X0001 application, PDF page 64, Section 16.3.3.

¹⁶⁴ Exhibit 27844-X0009, Letter of concern and questions from all residential customers, PDF page 2.

¹⁶⁵ Decision 27084-D01-2022: 2023 Generic Cost of Capital, Proceeding 27084, March 31, 2022, paragraph 3.

204. In the Commission's 2023 GCOC decision, it stated that there was an inadequate basis to depart from either the last approved ROE or the deemed equity ratios (either up or down). The Commission found that maintaining the existing ROE of 8.5 per cent will, when combined with the existing deemed equity ratios, provide the utilities with a fair return for 2023.¹⁶⁶

205. While the Commission is interested in related decisions in other jurisdictions, it also realizes economic conditions or market environments in those jurisdictions could be different than those faced in Alberta, so it looks first to its own relevant proceedings and decisions to guide its decision making with respect to cost of capital.

206. Given the 2023 ROE rate in the Commission's most recent GCOC proceeding was left unchanged at 8.5 per cent, and that Corix's former ROE rate was approved based on the Commission's most recently approved GCOC ROE rate at that time, the Commission finds that Corix's approved ROE for its application years of 2023 to 2025 will be 8.5 per cent. The Commission directs Corix to reflect the approved ROE of 8.5 per cent in its compliance filing.

7.3 Cost of debt

207. Corix requested a deemed interest rate of 5.52 per cent to be used for its cost of debt based on the following calculation of the deemed interest rate on debt financing:¹⁶⁷

Table 8. **Corix's** applied-for deemed interest rate

	Rate (%)
GOC 10-year bond yield (October 2022)	3.28
BBB-BBB(low) premium	1.99
Issuance fee	0.25
Deemed interest rate	5.52

208. Corix explained that Corix Utilities (Foothills Water) Inc. is too small to obtain its own credit rating and raise funds in the debt markets. The inability to raise bonds in its own name means an alternate method that fairly, simply and reasonably computes a deemed interest rate would be required. The interest rate would reflect the risk of the water utility as seen by third-party debt financiers. Corix Utilities (Foothills Water) Inc. obtains its capital funds from its parent CIL.

209. The cost of debt rate previously approved for Corix in its last rate application was 6.5 per cent based on the actual cost of Corix's fixed rate debt.¹⁶⁸ The Commission found in that decision that due to Corix's small rate base, small customer base, and probability of cost recovery, alternate sources of financing would not likely be available to Corix.¹⁶⁹

210. In this application, Corix submitted that the above Deemed Interest Rate calculation of 5.52 per cent is a fair objective method to calculate the applicable interest rate for a small utility, which itself is not large enough to raise its own debt in the long-term debt market.

211. Corix explained that the 10-year bond yield is the 10-year Government of Canada (GOC) bond yield as of October 2022, and the BBB-BBB(low) premium is calculated as the trailing

¹⁶⁶ Decision 27084-D01-2022, paragraph 55.

¹⁶⁷ Exhibit 27844-X0001 application, PDF page 62, Table 18: Debt Financing.

¹⁶⁸ Decision 2012-262, paragraph 74.

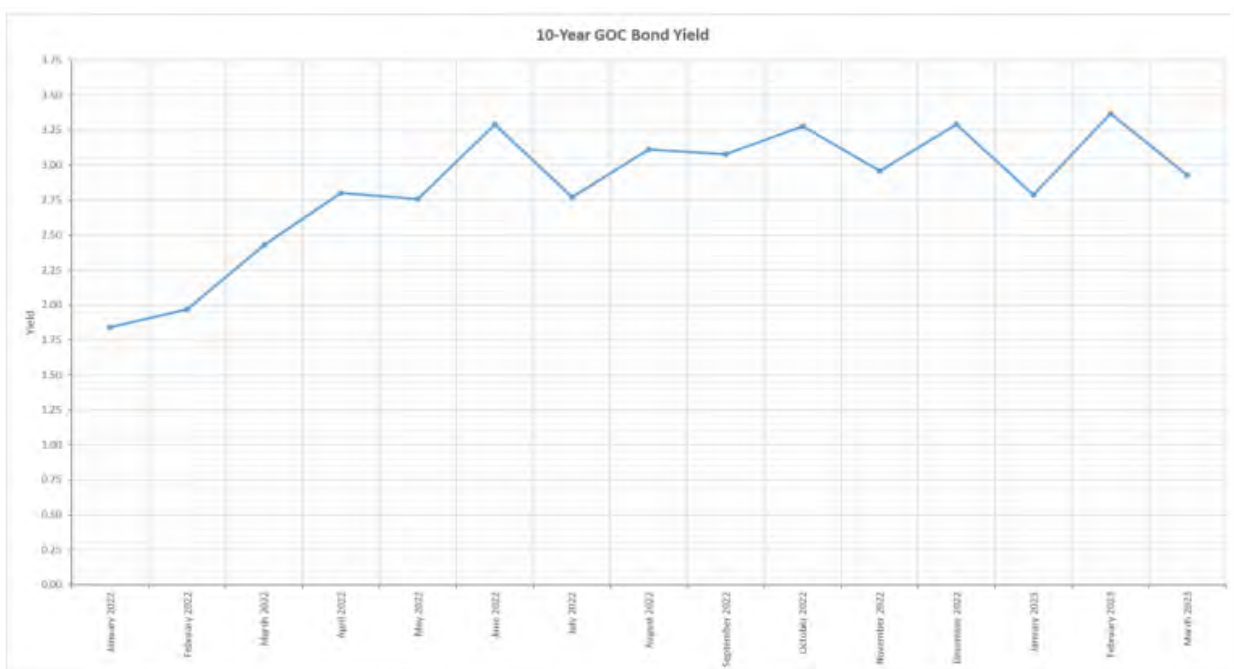
¹⁶⁹ Decision 2012-262, paragraph 74.

12 months average for the corporate bond spreads as of October 2022. Corix used these two components of the deemed debt rate calculation based on a BCUC GCOC decision that stated, "... the Panel confirms that the default debt component of the capital structure is set to track a benchmark credit spread that reflects BBB or BBB(low) rated debt relative to the 10 year Government of Canada bond yield."¹⁷⁰

212. In an IR, Corix was asked about the determination of the issuance fee and how much Corix's parent company pays in issuance fees relative to the debt it finances.¹⁷¹ Corix responded that it has in the past paid a higher percentage than the 0.25 per cent in issuance fee in its debt financing and more recently a little lower than the 0.25 per cent due to the parent's management of approximately \$2 billion in assets. Corix stated that Foothills Water should be evaluated on its deemed debt based on its own stand-alone ability to obtain debt financing as a small utility and that directionally, a small water utility would have higher costs of debt and issuance costs compared to a much larger debt issuing utility. Corix further noted in its response that the 0.25 per cent deemed issuance fee had previously been approved by the BCUC.

213. Corix was also asked in an IR whether it agreed or disagreed with a submission made by A. Hart that stated the 10-year GOC bond yield rate has decreased to 2.72 per cent and is on a downward trajectory.¹⁷² In its IR response, Corix stated that the data from the Bank of Canada shows no sign of a downward trajectory and provided the following figure:¹⁷³

Figure 1. Historical 10-year GOC bond yield (V122543)



214. In another IR response, Corix also provided an update to its deemed debt rate using more recent March 2023 information results compared to the application proposed rate, which was

¹⁷⁰ BCUC Generic Cost of Capital Proceeding Stage 2 Decision associated with Order G-47-14, page 123.

¹⁷¹ Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-037(a).

¹⁷² Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-037(b).

¹⁷³ Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-037(b), Figure 1.

based on October 2022 information. The result was an updated rate of 5.54 per cent, compared to the applied-for rate of 5.52 per cent. Corix stated this updated comparison shows the deemed interest rate methodology is stable and provides a fair and reasonable approach to set the deemed interest rate for the forecast period.¹⁷⁴

Commission findings

215. The Commission finds that the methodology Corix has used to determine a deemed interest rate is reasonable and approves Corix's proposed deemed interest rate of 5.52 per cent as its approved cost of debt.

8 Rate design

216. The rate design or structure determines how the costs for providing water service, as determined by the revenue requirement, are allocated among customer groups. Corix explained that among its objectives in designing its water rates were the following:

- allocate costs equitably among customers;
- encourage the wise use of the water resource; and
- achieve stable revenues through a higher fixed charge component to reduce risk to the utility and ensure adequate funding for the utility's operations.¹⁷⁵

217. This section examines Corix's rate design analysis, the proposed rate structure, the forecast number of customers, the average water consumption rates, and the requested rate increase. Each of the topic areas are addressed separately by the Commission.

8.1 Rate design analysis and rate structure

218. Corix currently has two core customer classes: residential and commercial. Both customer classes are billed based on the following two types of charges, although the rate for each charge differs as between the customer classes:

- (i) Basic monthly charge – applies to a single water service connection and is a fixed charge; and
- (ii) Metered charge – metered water consumption charge.

219. In Corix's 2012 rates decision, the Commission provided a direction for a future application regarding rate design, and the levels of the basic monthly charge and the metered variable charges:¹⁷⁶

The Commission agrees that there should be a balance between providing a price signal to encourage conservation of the water resource against the fairness of ensuring all customers pay a share of the fixed costs associated with the provision of the water service. The Commission accepts that having the two charges change proportionally will

¹⁷⁴ Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-037(d).

¹⁷⁵ Exhibit 27844-X0001, application, Section 19.4.3.

¹⁷⁶ Decision 2012-262, paragraph 99.

continue to achieve this balance. However, the Commission directs Corix to address the relative level of the two charges in greater detail in its next rate application.

220. In Corix's refiling proceeding for its 2012 to 2014 rates decision, the Commission provided another similar direction to Corix to, "... address the relative level of the two charges [basic charge and metered rate] in greater detail in its next rate application."¹⁷⁷ That same direction also added that Corix's next rate application should be no more than five years from the date of that decision (March 8, 2013); however, Corix filed its next rate application on December 2, 2022, more than nine years after that prior decision date.

221. Corix stated that in compliance with the Commission directions regarding rate design (as discussed above), Corix performed a rate design analysis of the residential and commercial (Core customers) rate structure and its rates.¹⁷⁸ Corix noted its optional services – Potable Bulk Water and Raw Water Transportation – were not part of this rate design analysis as Potable Bulk Water operates in a competitive marketplace and Raw Water Transportation is subject to negotiated Water Transportation Agreements with a third party.

222. Corix proposed the following rate design changes:

- Refine the Residential and Commercial Basic Monthly Charge to be based on meter size with the 15 mm (5/8 inch) meter considered as the standard minimum size to which the larger meters are charged based on the meter ratio; and
- Apply the Commercial Basic Monthly Charge to all potable commercial customers whether they are using water for commercial or irrigation purposes.

223. The rate design analysis considered Corix's customer demand characteristics and noted that the vast majority of revenues are residential (96 per cent) compared to commercial (four per cent). The metered consumption volume shows similar statistics with residential at 95 per cent compared to commercial at five per cent.

224. Corix states that approximately 87 per cent of the utility's revenue requirements associated with providing water service are fixed costs and do not vary with the amount of water consumed. Corix explained that while this is an important factor in designing an equitable rate, it must be considered in the context of designing rates that also incorporate a charge per volume of water consumed to encourage customers to use the water resource wisely.

225. As part of its rate design analysis, Corix provided the following 2021 actual statistics for the total number of households with water service:¹⁷⁹

¹⁷⁷ Decision 2013-082, paragraph 59.

¹⁷⁸ Exhibit 27844-X0001, application, PDF page 74, Section 19.4.

¹⁷⁹ Exhibit 27844-X0001, application, PDF page 76, Table 30.

Table 9. **Corix's 2021** core customer statistics

2021 Actuals	Core customers		
	Residential	Commercial	Total
Total revenues	\$1,202,569	\$47,104	\$1,249,673
Revenues	96.2%	3.8%	100.0%
Fixed revenues	\$609,128	\$16,464	\$625,592
Variable revenues	\$593,442	\$30,640	\$624,082
Total revenues	\$1,202,569	\$47,104	\$1,249,673
Fixed revenues	50.7%	35.0%	50.1%
Variable revenues	49.3%	65.0%	49.9%
Total revenues	100.0%	100.0%	100.0%
Customers	928	27	955
Customers	97.2%	2.8%	100.0%
Consumption (m ³)	307,895	16,619	324,514
Consumption	94.9%	5.1%	100.0%
Average use per customer (m ³)	332	616	
Avg use factor relative to residential use (Commercial average use / Residential average use)	---	1.9	

226. Corix considered that the current relative proportion of residential revenues with half fixed and half variable provides a reasonable balance between competing objectives. Corix stated, however, that there is no one exact relative ratio that is appropriate for water utilities.¹⁸⁰ Corix provided an example of another of its related water utilities in British Columbia, Corix Panorama Water at Panorama Mountain Resort, where 85 per cent of the utility's costs are fixed but the rate structure recovers its revenues approximately 48 per cent from the fixed basic charge and the remaining 52 per cent from the variable meter rates.¹⁸¹ Compared to the fixed/variable ratio of total revenues, Foothills Water has a very similar rate design for its residential customers. Corix also stated that Panorama Water is similar to Foothills Water in that they are both rate base regulated and geographically relatively close.¹⁸²

227. Corix considered that a balanced half fixed and half variable approach addresses the various goals in setting rates. Corix stated that different objectives, such as cost causation, conservation of water resources and utility revenue risk, would indicate different proportions of fixed and variable. Corix stated that the current rate structure with a general target of half of fixed revenues and half of variable revenues are balanced and appropriate since it recognizes that costs are primarily fixed but a strong conservation system is included with a variable metered charge.

¹⁸⁰ Exhibit 27844-X0001, application, PDF page 76, Section 19.4.2.

¹⁸¹ Exhibit 27844-X0001, application, PDF page 76, Section 19.4.2.

¹⁸² Exhibit 27844-X0001, application, PDF page 77, Section 19.4.2.

Metered consumption charge (variable)

228. Corix stated the current rate design has the variable metered charge at \$1.93 per cubic metre (2022 existing rates) for both residential and commercial rate classes. Corix explained its position that given that customers are both receiving the same potable water, the same metered rate should apply to both customer classes. Corix submitted that the current metered consumption charge approach between residential and commercial customers is appropriate and should be maintained.¹⁸³

Basic monthly rate (fixed)

229. Corix submitted that the commercial basic monthly charge rate, which is currently the same as the residential basic charge, may not promote fairness and equity if the two groups are not alike in demand requirements. Additionally, commercial irrigation customers do not currently pay a basic monthly rate, which may not promote the objectives of fairness, equity and avoiding unjust discrimination. Therefore, in this application, to address those rate design shortcomings, Corix proposed changes to the commercial basic monthly rate so that this rate is based on the customer's meter size. Further, the commercial basic monthly rate would apply to commercial irrigation customers.

230. Corix recommended using the same meter ratios as used by The City of Calgary. Corix stated that as Foothills Water at Heritage Pointe borders the city of Calgary, the Calgary meter ratios would be more relevant and appropriate for Foothills Water to set the basic monthly charge.¹⁸⁴ The ratio would essentially be a multiplier to the basic rate for a 15 mm sized meter, the same as used by residential customers, for commercial customers with larger meters. Those meter sizes and meter ratios considered by Corix for use in its application are as follows:¹⁸⁵

Table 10. Calgary and Edmonton meter ratios

Fixed service charges relative to standard meter size		
	City of Calgary	City of Edmonton
Meter size*	Meter ratio	
15 mm (5/8")	1.0	1.0
20 mm (3/4")	1.9	1.5
25 mm (1")	2.4	2.5
40 mm (1 1/2")	4.2	5.0
50 mm (2")	6.0	8.0
75 mm (3")	11.8	15.0
100 mm (4")	17.3	25.0
150 mm (6")	30.6	50.0
200 mm (8")	49.1	80.0
250 mm (10")	76.5	115.0
300 mm (12")	0.0	168.9
*Note: Meter sizes identified in bold are currently installed at Foothills Water customer premises.		

¹⁸³ Exhibit 27844-X0001, application, PDF page 80, Section 19.4.6.

¹⁸⁴ Exhibit 27844-X0001, application, PDF page 79, Section 19.6.

¹⁸⁵ Exhibit 27844-X0001, application, PDF page 81, Table 31.

231. A. Hart filed a letter on behalf of the Customer Group that supported the rate design changes with the exception of the use of the City of Calgary as the sole reference point for the meter ratios. A. Hart's letter explained the Customer Group's position on this:¹⁸⁶

We support the direction Corix have taken to more equitably allocate costs between residential and large commercial users and its belief that a comprehensive fully allocated cost of service study for a small number of meters is unjustified. However, we do question the premise that the City of Calgary should be used as the sole reference point for fixed service charges relative to standard meter size ignoring similar data from the City of Edmonton. There is no argument presented that suggests one city versus another has "got it right" and physical proximity does not appear to be a compelling argument to use Calgary in favour of Edmonton. We believe therefore that an average for the 2 cities of the fixed service charges relative to standard meter size (Table 31, section 19.4.5) is more appropriate.

232. Corix was asked in a Commission IR why it selected Calgary as the meter ratio reference point for Commercial fixed charges and did not use Edmonton or an average of the two. Corix provided in its response a map of the 2017 Foothills County – City of Calgary Intermunicipal Development Plan (IDP) and showed that Heritage Pointe was in an area of mutual interest between Calgary and Foothills County, where attention is required to ensure that future development is complementary to both municipalities.¹⁸⁷ As such, Corix stated, lands contained within the boundaries of the Plan Area are subject to policies of the IDP. To maintain the continuity of building practices inside the IDP area, developers in the Heritage Pointe hamlet follow The City of Calgary building codes and policies.

233. In the same IR response, Corix also stated that recent events indicated that The City of Calgary is continuing with its Foothills Land Annexation, as provided in its submission of a "Notice of Intent to Annex" to the land and property rights tribunal¹⁸⁸ to initiate the process of annexation.¹⁸⁹ Corix explained that the close relationship between Foothills County and the possible future annexation of Heritage Pointe into the city of Calgary provides a compelling reason to follow Calgary's policies and procedures.

234. The Customer Group's argument, signed by the presidents of The Summit at Heritage Pointe Condominium Corporation and The Ridge at Heritage Pointe Condominium Corporation and K. Severs, a resident of the Ridge at Heritage Pointe (and who is described in the document as a content expert), stated that the IDP is not an annexation plan, but rather a development plan.¹⁹⁰ The Customer Group further asserted, and their discussions with Foothills County indicated that, "... annexation for Heritage Pointe hamlet is off the table."¹⁹¹ The Customer Group's argument also referred to the website for the City of Airdrie, which it indicated has commercial rates based upon standard meter sizing ratios identical to those of Edmonton (ratio of 25.0 for a 100 mm sized meter).

¹⁸⁶ Exhibit 27844-X0009, Correspondence from A. Hart, PDF page 2.

¹⁸⁷ Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-038(a).

¹⁸⁸ <https://engage.calgary.ca/foothills-land-annexation>

¹⁸⁹ Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-038(a), PDF page 72.

¹⁹⁰ Exhibit 27844-X0033, A. Hart correspondence, page 2.

¹⁹¹ Exhibit 27844-X0033, A. Hart correspondence, page 2.

235. In Corix's reply argument, it stated:¹⁹²

Corix notes that the IDP between Foothills County and the City of County [sic] –is simply as the title indicates an intermunicipal development plan. However, the IDP is not without consequence since the evidence shows that the City of Calgary has submitted its Notice of Intent to annex 415 acres of land in Foothills County. The IDP does not mean that Heritage Pointe in the future will be annexed by the City of Calgary, but it does allow a possible path for Heritage Pointe to be annexed by Calgary. Of particular importance is that Heritage Pointe is contiguous with the boundaries of the City of Calgary which makes the land eligible for annexation under the *Municipal Government Act*.

236. Corix further stated that the comparison to the City of Airdrie's meter ratio should be given no weight as it was not filed within the evidentiary record as an exhibit in this proceeding; therefore, all parties were not afforded an opportunity to test it.¹⁹³

Irrigation

237. In Corix's last rate application, a commercial customer using potable water for irrigation was exempted from the monthly basic charge. This means that the commercial irrigation customer provides no revenue to Corix in the non-summer irrigation months.

238. Corix explained that, in addition to not contributing towards fixed costs, irrigation demand has other financial consequences. The utility also operates a potable bulk water fill station, but this service must be closed on peak demand days (such as when irrigation use is high) and the utility thereby loses potential revenue to other fill station operators. These lost bulk water sales impact core customers, as the revenue generated by the bulk water fill station is used to offset the revenue requirements for core customers.

239. Corix proposed in this application that any commercial irrigation customer not paying a basic charge may not be promoting the objectives of fairness, equity and avoiding unjust discrimination. Corix submitted that a commercial customer using potable water should not be exempted from the basic monthly charge since the water system is designed to provide service for all days in the year and Corix's costs are predominantly fixed.¹⁹⁴

Commission findings

240. The Commission finds that Corix has complied with the Commission's directions from Corix's prior rate applications to address the relative level of the two charges (basic charge and metered rate) in greater detail in its next rate application. Corix has adequately considered the rate design for the two types of charges and made reasonable proposals in this application to address any perceived customer equity imbalances.

241. In considering the rate design, the Commission has not placed any weight on the comparison drawn by the Customer Group to the City of Airdrie's meter ratio. This is because the factual information regarding the City of Airdrie meter ration was not filed within the

¹⁹² Exhibit 27844-X0043, Corix reply argument, paragraph 45.

¹⁹³ Exhibit 27844-X0043, Corix reply argument, paragraph 47.

¹⁹⁴ Exhibit 27844-X0001, application, PDF page 84, Section 19.7.

evidentiary record and per the Commission's Rule 001, no argument may be received by the Commission unless it is based on the evidence before the Commission.¹⁹⁵

242. The Commission finds that the rate design for fixed and variable charges as proposed by Corix for its two core customers is reasonable and appropriately reflects cost causation. Additionally, the Commission finds the commercial basic charge meter ratios as proposed, is reasonable. The Commission considers that alignment with the City of Calgary meter ratios is appropriate considering the proximity to Calgary and interest of the adjacent municipalities in ensuring that development is complementary.

243. The Commission also approves Corix's proposal to apply the basic monthly charge to commercial irrigation customers and finds that it is reasonable and appropriately considered cost causation and customer class discrimination.

244. Corix did not comply with the Commission's direction to file its next rate application within five years of its previous application, and has not explained the reason for the delay.

245. Corix is reminded that the Commission has the ability to impose administrative penalties to a utility that has not complied with its directions. In current circumstances, Corix's non-compliance with the direction has exacerbated the complexity of its application, and the amount of time required to process its rate adjustment. The delay may also have been detrimental to Corix insofar as it has not recovered cost increases in its customer rates in recent years. Lastly, and importantly, the delay resulting from Corix's non-compliance with Commission direction increases the probability of rate shock for customers. In this regard, the Commission notes that Corix sought an 18.6 per cent rate increase in the current application and that part of the explanation for the increase is due to the length of time since its last application. That length of time was entirely within Corix's control. Corix is advised that further non-compliance with Commission instructions could result in financial or other penalties.

8.2 Proposed rates

8.2.1 Residential and commercial rates

246. The current and proposed Corix residential and commercial rates are as follows:

Table 11. Residential and commercial proposed rates¹⁹⁶

	Existing rates	Forecast 2023	Forecast 2024	Forecast 2025
	(\$)			
Rate 1 - Residential				
Basic Monthly Charge (\$) (Fixed)				
Meter size:				
15mm (5/8")*	54.88	65.07	65.47	67.17
20mm (3/4")		123.63	124.39	127.62
25mm (1")		156.16	157.12	161.20
40mm (1 1/2")		273.28	274.96	282.10
50mm (2")		390.40	392.80	403.00

¹⁹⁵ Rule 001: *Rules of Practice*, Section 48.4.

¹⁹⁶ Exhibit 27844-X0001, application, PDF page 88, Table 35.

	Existing rates	Forecast 2023	Forecast 2024	Forecast 2025
	(\$)			
75mm (3")		767.79	772.52	792.56
100mm (4")		1,125.66	1,132.59	1,161.97
Metered Charge (\$ per cubic metre) (Variable)	1.93	2.29	2.30	2.36
Rate 2 - Commercial				
Basic Monthly Charge (Fixed)				
Meter size:				
15mm (5/8")*	54.88	65.07	65.47	67.17
20mm (3/4")	54.88	123.63	124.39	127.62
25mm (1")*	54.88	156.16	157.12	161.20
40mm (1 1/2")*	54.88	273.28	274.96	282.10
50mm (2")*	54.88	390.40	392.80	403.00
75mm (3")*	54.88	767.79	772.52	792.56
100mm (4")	54.88	1,125.66	1,132.59	1,161.97
Metered Charge (\$ per cubic metre) (Variable)	1.93	2.29	2.30	2.36
*Note: Meter sizes in bold are currently installed for Residential and Commercial customers.				

247. Corix stated the proposed rates for 2023 to 2025 reflect rate increases of 18.6 per cent in 2023, 0.6 per cent in 2024, and 2.6 per cent in 2025.¹⁹⁷

Commission findings

248. The Commission will not establish the amount of the rate increase for residential and commercial customers at this time. Corix is directed to update its schedules as part of its compliance filing incorporating the directions contained in this decision and, based on the results of the amendments, submit a new rate proposal as part of its compliance filing.

Bulk water

249. Corix proposed the bulk water service rates for the test period as set out in the table below:

Table 12. Bulk water proposed rates¹⁹⁸

	Existing rates	Forecast 2023	Forecast 2024	Forecast 2025
	(\$)			
Administration Charge per Bill Issued	12.00	12.00	12.00	12.00
Bulk Fill Station \$ per cubic metre (Variable) current and proposed for 2023-2025	3.12	3.60	4.10	4.50
Other Bulk Water Charges:				
Key fob (each)	20.00	20.00	20.00	20.00
Application Fee for Bulk Water Service	25.00	25.00	25.00	25.00

¹⁹⁷ Exhibit 27844-X0001, application, PDF page 88, Section 20.2.

¹⁹⁸ Exhibit 27844-X0001, application, PDF page 89, Table 36.

250. Corix stated that it considers that increases to bulk water rates are warranted, but as fill station customers are non-captive and mobile, the rate charged must be competitive with other providers. Corix stated it believes the gradual change in prices will ease the price increases over time and allow for enhanced customer retention. Corix cautioned that setting rates for non-captive customers at a higher level than proposed may reduce the total revenue yielded from bulk water sales, which is detrimental to the larger customer base because bulk water revenues are used to offset the overall revenue requirement.

251. Corix also provided that a review of nearby providers of potable bulk water service indicates the average rate in the area is at about \$5.17 per m³.¹⁹⁹

252. Corix was asked in a Commission IR whether its proposed rate would still be a significant discount from the competitors and whether Corix believed it must be priced 30 per cent lower than other competitors in order to retain its non-captive customers. Corix responded that the response would depend on whether the bulk water customer was a small or large volume user. This is because The City of Calgary uses differential pricing for bulk water, where large users pay a significantly lower rate than small users. Small bulk water users at The City of Calgary have comparable rates to the \$5.17 simple average. However, The City of Calgary rates for large volume users are much lower.²⁰⁰

253. While Corix was not necessarily opposed to the Commission setting the bulk water rates for 2024 and 2025 to be higher than Corix's proposed rates, it stated that caution must be exercised in light of Calgary's lower prices for large volume bulk users, which currently constitute the majority of Corix's bulk water sales. Corix also submitted that customer retention is the most important consideration over the long term, particularly for large volume bulk water customers.

254. In another Commission IR, Corix was asked to provide the actual bulk water rates used to derive the average comparison cost of \$5.17 per m³. Corix provided a table in the response showing rates varied from the lowest rate of \$2.39 per m³ in Calgary (for high-usage customers with over 500 m³ purchased) to \$10.00 per m³ in Okotoks. Other locations in the study included Cochrane at \$4.00 per m³ for "domestic" bulk water and \$6.00 per m³ for "non-domestic" bulk water,²⁰¹ several locations in Foothills County at \$5.00 per m³ and Willow Creek at \$2.50 per m³. Calgary's rates were also listed for lower and medium use customers (use of 100 m³ and 200 m³, respectively) as \$5.05 and \$3.39 per m³, respectively.²⁰²

255. In other Commission IRs, Corix was asked to compare the savings a Corix bulk water customer might expect, when taking into account the additional travel time and cost to purchase water from a Calgary fill station instead of Corix's fill station.²⁰³ Corix responded with a calculation that a large tanker at 30 m³ capacity based on the 2025 proposed rate of \$4.50 per m³ would save \$63.30 per fill, but this is only considering the water price difference and assuming the 2022 Calgary bulk water price remains the same in 2025. A medium-sized tanker truck at

¹⁹⁹ Exhibit 27844-X0001, application, PDF page 89, Section 20.3.

²⁰⁰ Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-039(b).

²⁰¹ The Town of Cochrane defines "Non-Domestic Bulk Water" as bulk water obtained for purposes other than normal domestic household purposes, and includes bulk water purchased for such purposes by the ultimate user of the Bulk Water or by a water vendor for resale (<https://www.cochrane.ca/ArchiveCenter/ViewFile/Item/224>, PDF page 2).

²⁰² Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-039(c).

²⁰³ Exhibit 27844-X0035, CORIX-AUC-2023MAY03-005.

15 m³ capacity in 2025 is estimated by Corix to save \$31.65 per fill before travel costs were considered in the comparison.

256. Considering travel costs in the competitive cost comparison, and using cost assumptions provided by the Commission (\$30/hour for driver labour costs and \$1 per kilometre for vehicle expense costs), Corix calculated that the estimated costs would be \$34.60 per trip. This means that it would not be profitable for a medium-sized tanker truck to travel to Calgary for the lower bulk water rate (\$31.65 saved in lower water price compared to an additional \$34.60 in vehicle and travel costs), but a large tanker truck could save an estimated \$28.70 (\$63.30 bulk water price difference less \$34.60 vehicle and travel costs).

Commission findings

257. The Commission notes that in Corix's prior rate application for the years 2012-2014, it was the Corix customers (known in that application as the Heritage Pointe Home Owners or HPHOs), who initially recommended to Corix to raise the rate for bulk water from the applied-for rate of \$1.20 per m³ to \$3.13 per m³.²⁰⁴ Corix had not proposed any increase to its existing bulk water rates of \$1.20 per m³ in that application. The rate of \$2.13 per m³ proposed by the HPHOs was based on its own calculations for the average price per cubic metre for a residential customer.

258. In response to that recommendation made by the HPHOs, Corix proposed to increase the rate for bulk water from \$1.20 per m³ to \$3.00 per m³. Corix explained that the increased rate it was now proposing reflected the average rate charged by other suppliers for similar service in the region.²⁰⁵ Ultimately, the Commission found that the bulk water rate for the test years 2012 to 2014 should be set at \$3.00 per m³.

259. The Commission finds that the bulk water rates proposed by Corix in its current application are lower than other comparable, nearby rural bulk water filling stations, and Corix is attributing too much weight to Calgary bulk water prices in setting its rates. Given the additional costs of travel to Calgary the cost analysis provided in the application shows it would likely be unprofitable for operators with medium-sized tanker trucks to choose to fill up in Calgary, and there would not be a significant level of savings for operators with larger tanker trucks if they choose to do so.

260. The Commission directs Corix to set its 2023 bulk water rates (as soon as reasonably practical after the date of the decision) at \$4.50 per m³, in 2024 at \$5.00 per m³ and in 2025 at \$5.40 per m³. The increases to 2024 and 2025 follow the same dollar value increment of increases as proposed by Corix in its application for bulk water rates in 2024 and 2025, increases of \$0.50 and \$0.40, respectively. Corix is directed to forecast its bulk water revenues using the approved bulk water rates in its compliance filing.

261. In Corix's next rates application, the Commission directs Corix to provide an estimate of its total costs to serve the bulk water customers. This includes the capital costs, O&M costs, and customer billing and support. This information, weighed against the revenue earned from bulk water customers, will help the Commission and Corix water customers understand the

²⁰⁴ Proceeding 1828, Corix Utilities (Foothills Water) Inc., Part 2 – Application for New Water Rates, Exhibit 0030.01.HPHOS-1828 HPHOs rebuttal evidence, PDF page 4 and Exhibit 0037.01.HPHOS-1828 AUC-HPHOs-3, PDF page 3.

²⁰⁵ Decision 2012-262, paragraph 102.

profitability of this competitive line of business and its benefit to the Corix's regulated water utility, and may better inform bulk water price-setting in the next rate application.

8.3 Number of customers and forecast water consumption

262. Corix provided its customer count forecast until 2025 per below:

Table 13. Customer count forecast²⁰⁶

	Actual 2021	Projected 2022	Forecast 2023	Forecast 2024	Forecast 2025
Residential	928	947	957	979	991
Commercial	27	28	28	28	28
Raw water transportation	4	4	4	4	4
Total customers (year-end)	959	979	989	1,011	1,023

263. Corix stated that as of July 2022, 13 residential customers were added and an additional six customers are projected to the end of 2022. For 2023, Corix forecasts 10 additional customers, comprising six Heritage Pointe unconnected lots applying for service and four new show homes. The 2024 forecast of 22 residential customers comprises 10 further unconnected lots at Heritage Pointe obtaining service and 12 new homes from three upcoming developments. The forecast for 2025 includes 12 residential customer additions, which Corix stated is related to the stable expansion of the water utility.²⁰⁷

264. Corix included one new commercial account in 2022 for a golf driving range, but did not expect any further commercial customer additions in 2023 to 2025.

265. Corix provided its forecast for residential and commercial customer average use:

Table 14. Core customer average use²⁰⁸

	Actual 2021	Projected 2022	Forecast 2023	Forecast 2024	Forecast 2025
Residential avg use per m ³ per customer	332	300	316	316	316
Commercial avg use per m ³ per customer	616	703	703	703	703

266. In the application, the residential average use has been held constant at 316 m³ per customer for each of the test years 2023 to 2025. The 316 m³ average use per residential customer is the average of actual 2021 and projected 2022 residential use per customer. The commercial average use forecast shown above is based on the actual 2021 commercial average use and adjusted for the new driving range customer in 2022.

267. Below is Corix's actual, projected and forecast core customer consumption for 2021-2025:

²⁰⁶ Exhibit 27844-X0001, application, PDF page 67, Table 22.

²⁰⁷ Exhibit 27844-X0001, application, PDF page 67, Section 17.1.1.

²⁰⁸ Exhibit 27844-X0001, application, PDF page 68, Table 24.

Table 15. Core customer consumption²⁰⁹

	Actual 2021	Projected 2022	Forecast 2023	Forecast 2024	Forecast 2025
	per m ³				
Residential consumption	307,895	281,250	300,985	306,043	311,418
Commercial consumption	16,619	19,319	19,670	19,670	19,670
Total core customer consumption	324,514	300,569	320,655	325,713	331,088

268. Corix explained that the total consumption for each rate class is the average number of customers in the year multiplied by the average use of the rate class.

269. Corix provided its bulk water forecast as below:

Table 16. Bulk water forecast²¹⁰

	Actual 2021	Projected 2022	Forecast 2023	Forecast 2024	Forecast 2025
	per m ³				
Potable bulk water consumption	19,948	20,147	20,349	20,552	20,758

270. Corix explained that the potable bulk water service (fill station) consumption has been forecast based on actual 2021 total consumption escalated by one per cent from 2022 to 2025. Corix stated that there are four large users with many smaller users at the fill station, and in many months some users take no service, so an average-use methodology does not provide a reliable forecast approach, particularly when the four largest users are the primary users of the service.

271. Under Water Transportation Agreements, Corix transports raw water to four customers who use this water for irrigation purposes and have their own water licences. These four customers are:

- (i) Heritage Pointe Golf Club Inc.
- (ii) The Lake at Heritage Pointe Homeowners Association.
- (iii) The Condominium Corporation No. 1010422 for The Ranche at Heritage Pointe.
- (iv) The Artesia Homeowners Association.

272. Raw water transportation is an optional service and subject to the negotiated Water Transportation Agreements with each party. Rates are set through negotiations with each party and those prices were provided by Corix in its application.²¹¹ Corix provided its raw water transportation consumption forecast as below:

²⁰⁹ Exhibit 27844-X0001, application, PDF page 68, Table 25

²¹⁰ Exhibit 27844-X0001, application, PDF page 69, Table 26.

²¹¹ Exhibit 27844-X0001, application, Table 29.

Table 17. Raw water transportation consumption²¹²

	Actual 2021	Projected 2022	Forecast 2023	Forecast 2024	Forecast 2025
Base customer consumption per m ³	110,582	110,582	110,582	110,582	110,582
Golf course consumption per m ³	191,413	191,413	191,413	191,413	191,413
Total raw water transportation consumption per m ³	301,995	301,995	301,995	301,995	301,995

273. Corix stated the forecast consumption for 2022 to 2025 was set at the 2021 actual consumption.

Commission findings

274. The Commission has reviewed both the forecasting methodology, forecast number of customers by customer type and the water consumption forecasts provided by Corix and finds them to be reasonable and are reasonably consistent with historical numbers and usage patterns. Therefore, the Commission accepts Corix's approach to its forecasting methodology as well as its customer count and water consumption forecasts for the test years.

9 Water losses

275. Corix reported its historical system water losses from 2014 to 2021 per the table below:

Table 18. Historical system water losses 2014-2021²¹³

	2014	2015	2016	2017	2018	2019	2020	2021
	m ³							
Total Supply to WTP	381,197	369,531	391,308	439,906	459,382	436,344	475,486	485,722
Treated Water leaving WTP	300,957	307,296	310,117	376,314	42,5272	411,057	432,224	437,356
Total Potable Water Consumption	252,255	268,332	264,548	336,371	31,2504	267,243	312,185	344,462
Water loss from WTP	80,240	62,235	61,191	63,592	34,110	25,287	43,262	48,366
Water Loss from Distribution System	48,702	38,964	45,589	39,943	112,768	143,814	120,039	92,894
Total System Water Loss	128,942	101,199	106,780	103,535	146,878	169,101	169,301	141,260
	(%)							
Water Loss from WTP	21	17	16	14	7	6	9	10
Water Loss from Distribution System	13	11	12	9	25	33	25	19
Total System Water Loss	34	27	29	24	32	39	34	29

276. Corix stated its Water Treatment Plant (WTP) is above ground where leaks are easily identified; therefore, the WTP water loss is due to unmetered water use in the production of potable water.²¹⁴ Corix explained that it recently began metering non-revenue water use for operations, but does not have the same data for previous years.

²¹² Exhibit 27844-X0001, application, PDF page 70, Table 28.

²¹³ Exhibit 27844-X0001, application, PDF page 29, Table 5; Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-035(c), PDF page 59.

²¹⁴ Exhibit 27844-X0042, Corix argument, PDF page 28, paragraph 140.

277. Corix's distribution system is below ground and water consumption is tracked by meters at the point of delivery. Corix explained that the cause of distribution system water losses was due to undetected system leaks; unmetered use from waste streams, fire hydrants and water used in operations; dated process technology; and failed meters. However, Corix also stated it could not quantify the losses related to each cause for the years 2019-2021, when asked in a Commission IR.²¹⁵ In its argument, Corix clarified that fire hydrant use is unmetered and counted as part of the distribution loss, but the water is used "as intended."²¹⁶ Additionally, Corix identified that some of the historical distribution system losses were caused by two system leaks that were detected and repaired, and this produced a measurable reduction in water losses in 2020 and 2021.

278. Corix maintained that it strives to improve its processes through ongoing mitigation efforts. The mitigation efforts include improving or optimizing leak response times, water use tracking, and various other strategies. Corix also stated that replacing older water meters is expected to reduce total water losses.²¹⁷

279. The Customer Group expressed concern about the level of water losses and noted there were no explanations provided in Corix's application for the significant changes in historical water losses.²¹⁸ In argument, the Customer Group stated that it was "... disappointed that Corix did not have a structured plan to find and reduce its considerable system losses (exceeding 24% raw water losses over the last 10 years and has [*sic*] high as 39% in 2019)."²¹⁹

Commission findings

280. The Commission believes that more can be done by Corix to improve its water loss tracking and reduce the amount of water lost. Corix's recent metering of the non-revenue water used in production may provide some additional insight into the WTP water losses in Corix's next rate application.

281. The Commission observes in Corix's application that its WTP and distribution system water losses were at the high end of the range of the Commission's expectations for a water utility, and the losses have been relatively volatile from year to year. The Commission is concerned about the higher operational costs required by Corix to supply its customers as a result of the water loss and assumes these higher costs are reflected in Corix's 2023-2025 water rates application. If the water loss ratio remains high, Corix's customers would continue to bear the cost of that inefficiency.

282. The Commission acknowledges that Corix's above-ground WTP production appears in the most recent years not to be the primary cause of the total system water losses; however, those losses have been trending upwards in the last two reported years. While Corix's WTP water losses have improved since 2018, there have been significant increased water losses in the distribution system in that same period. The Commission also notes that in many years there appears to be a loose inverse relationship between the two types of losses, meaning that when the losses in the WTP change in one direction, the distribution system losses trend in the other

²¹⁵ Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-035, PDF page 58; Exhibit 27844-X0035, CORIX-AUC-2023MAY03-002, PDF page 2.

²¹⁶ Exhibit 27844-X0042, Corix argument, PDF page 28, paragraph 141.

²¹⁷ Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-035(d), PDF page 59.

²¹⁸ Exhibit 27844-X0009, letter from A. Hart, PDF page 2.

²¹⁹ Exhibit 27844-X0033, Intervenor letter, customer intervener argument, page 2.

direction, while overall the total system water loss amounts do not change significantly.²²⁰ This could indicate the possibility of a data reporting issue, where the recording of the source of the water losses are inconsistently reported between the WTP and the distribution system.

283. The Commission is concerned that Corix cannot identify the direct cause of its distribution water losses and that the unmetered losses appear to be large and variable from year to year. Corix did not sufficiently explain how hydrant use is affecting total water losses and the reasoning for that use (i.e., is the use primarily for fire fighting, system main flushing or other reasons). The Commission notes the new inclusion in Corix's terms and conditions filed in this application to disallow the use of fire hydrants for "construction purposes."²²¹ Corix also did not distinguish the degree to which unmetered hydrant use or other unmetered causes contribute to water loss, leaving the possibility that systemic leaks could be an ongoing cause.

284. Further, the Commission finds that the mitigation efforts outlined by Corix, except for its meter replacement program, are too vague to be informative or helpful because they do not provide quantitative targets for improving mitigation and tracking. The Commission believes that Corix can improve water loss transparency, such as logging hydrant or other non-metered use, and implement steps to proactively mitigate possible causes of losses. If hydrants are being used for reasons other than fire fighting, particularly if this other usage results in significant consumption, Corix could consider the potential of a hydrant permit program and mandating the use of a temporary hydrant meter to record hydrant water usage, following the example of other water utilities in Alberta, such as Calgary and Edmonton.²²²

285. The Commission directs Corix to establish system-specific water loss targets for each of WTP and distribution system water losses measured in loss percentages and litres per customer, and to provide justifications for its selected targets. The targets must be reasonable when compared to generally accepted North American industry standards or targets for water loss levels, recognizing that there is currently no single definitive source for this, as pointed out by Corix.²²³ The Commission directs Corix to develop a plan to meet its internally set water loss target during its 2023 to 2025 test period and to include the target and plan in Corix's compliance filing to this decision. The Commission further directs Corix to include its 2022 water loss statistics in its compliance filing.

286. In Corix's next general rate application, the Commission directs Corix to provide its historical and present water loss statistics beginning in 2010 to its most recently available year and an update on the progress of Corix's water loss mitigation plan and achievement of its targets.

²²⁰ For example, in 2017 to 2018, WTP losses changed from 14% to 7% while system losses increased from 9% to 25%. Example 2: 2013 to 2014, WTP losses increased from 13% to 21%, while system losses decreased the exact same proportion from 21% to 13%. Example 3: 2012 to 2013, WTP losses decreased from 20% to 13%; system losses increased from 5% to 21%.

²²¹ Exhibit 27844-X0001, application, PDF page 98, Section 24.2, paragraph 22.

²²² <https://www.calgary.ca/water/customer-service/fire-hydrants.html> and <https://www.epcor.com/learn/meters/Pages/hydrant-permit-program.aspx>

²²³ Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-035(g), PDF pages 60-61.

10 Other issues

10.1 Water utility tariff – Terms and conditions

287. Appendix E-1 to the application²²⁴ included the proposed document that Corix described as the water utility tariff. This document consisted of:

- the terms and conditions of service
- the standard fees and charges schedule for the following items:
 - application fee \$25.00
 - activation (turn on) charge \$75.00
 - re-application charge \$25.00
 - call-back charge \$45.00
 - collection charge \$45.00
 - returned cheque charge \$35.00
 - late payment charge 1.5 per cent per month (19.6 per cent per year) on outstanding balance
 - the interest on cash security deposits (company's prime rate minus two per cent).
- the schedule of fines – for unauthorized use of water and fire hydrants
- rate schedules for:
 - residential service
 - commercial service
 - bulk water service (fill station)
- the bulk water service special terms and conditions

288. The current terms and conditions of service; standard fees and charges schedule; and schedule of fines were approved in Decision 2010-074²²⁵ and attached to that decision along with the rate schedules for residential and commercial service. In paragraph 112 of Decision 2012-262, the Commission approved the current terms and conditions of service, standard fees and charges schedule and schedule of fines, and noted that these were the same as those approved in Decision 2010-074.

289. Corix noted that the proposed rate schedule for bulk water service (fill station) is new. It submitted that this document will formalize the operation of this optional service and provide transparency to all customers.²²⁶

290. Corix indicated that the proposed bulk water service special terms and conditions of service contain updated terms from the off-site Water Sales Agreement that was included in the 2012 rate application.²²⁷ There were no terms and conditions of service for the bulk water service as part of the water utility tariff approved in 2010 and 2012. Instead, the terms of this service were included as part of the off-site water sales agreement, a stand-alone document.

²²⁴ Exhibit 27844-X0002, Appendix E-1: Water Tariff: Proposed (Clean), starting on PDF page 195.

²²⁵ Decision 2010-074: Corix Utilities (Foothills Water) Inc., 2009 Rate Base and Water Rate Increase Application, Rule 011: *Rate Application Process for Water Utilities*, Application 1591472, February 23, 2010.

²²⁶ Exhibit 27844-X0001, application, PDF page 96.

²²⁷ Exhibit 27844-X0001, application, PDF page 96.

291. In Section 24.2 of the application, Corix included a list of the proposed changes that it intends to make to the currently approved terms and conditions of service, the currently approved standard fees and charges schedule, and the currently approved schedule of fines. The list included a description of the changes and the underlying reason for the changes.²²⁸ In Appendix E-2 to the application, Corix included a blacklined version of the water utility tariff that showed all the proposed changes.²²⁹

Commission findings

292. The Commission examined the proposed water utility tariff and requested additional information from Corix through the IR process.²³⁰ Corix explained the reason for its proposal to include an activation charge,²³¹ described where the forecast revenue for 2023-2025 from the standard fees and charges is accounted for in the revenue requirement model,²³² and clarified how fines for water consumption during emergency and non-emergency restrictions will be applied.²³³

293. The Commission has reviewed the proposed changes to the currently approved terms and conditions of service, the currently approved standard fees and charges schedule, and the currently approved schedule of fines. The Commission considers that Corix has sufficiently justified each of the proposed changes, and therefore approves them.

294. The Commission approves the addition of the rate schedule for bulk water service (fill station) and the bulk water service special terms and conditions of service to the water utility tariff. The Commission agrees with Corix that this will formalize the operation of this optional service and provide transparency to all customers who use that service. The Commission considers it is beneficial to include the rate schedules, terms and conditions of service, fines, and fee and charges applicable to each of the services provided by Corix in one document.

295. Corix has been directed to submit a compliance filing to this decision, as set out in Section 11. This will require an update to the charges included on the rate schedules for residential service, commercial service and bulk water service. The Commission directs Corix, as part of the compliance filing, to submit an updated water rate tariff document that incorporates the updated charges on the rate schedules for residential service, commercial service and bulk water service, and reflects the approvals granted previously in this section.

11 Order

296. It is hereby ordered that:

- (1) Corix Utilities (Foothills Water) Inc. refile its application for new water rates for the years 2023-2025 to reflect the findings, conclusions and directions in this decision on or before August 31, 2023.

²²⁸ Exhibit 27844-X0001, application, PDF pages 96-99.

²²⁹ Exhibit 27844-X0002, appendixes, PDF page 220.

²³⁰ The specific IR responses are in Exhibit 27844-X0020 and consist of the responses to IR numbers 031, 032, 033 and 034, on PDF pages 53-57.

²³¹ Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-031(a), PDF page 53.

²³² Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-032(a), PDF page 54.

²³³ Exhibit 27844-X0020, Response to CORIX-AUC-2023MAR03-033 and 034, PDF pages 55-57.

Dated on July 25, 2023.

Alberta Utilities Commission

(original signed by)

Matthew Oliver, CD
Commission Member

Appendix 1 – Proceeding participants

Name of organization (abbreviation) Company name of counsel or representative
Corix Utilities (Foothills Water) Inc. (Corix)
Allan Hart, Heritage Pointe Homeowners Associations, Owners Associations and Condominium Corporations
Ken Severs, Heritage Pointe resident
Nate Nielsen, Heritage Pointe resident

<p>Alberta Utilities Commission</p> <p>Commission panel M. Oliver, CD, Commission Member</p> <p>Commission staff M. Anderson (Commission counsel) C. Robertshaw D. Mitchell E. Chu K. O'Neill</p>

Appendix 2 – Summary of Commission directions

This section is provided for the convenience of readers. In the event of any difference between the directions in this section and those in the main body of the decision, the wording in the main body of the decision shall prevail.

1. The Commission recognizes that some of the revenue requirement numbers will change as a result of its findings contained throughout this decision; therefore, Corix is directed to update its revenue requirement as part of its compliance filing. paragraph 26
2. The Commission finds that the new PLC upgrade is necessary because continued operations of a panel experiencing intermittent failure could lead to compliance and operational issues. The Commission notes that the COVID 19 pandemic resulted in supply chain disruptions that affected procurement times for electrical equipment, and it is satisfied with Corix’s explanation of initiating the PLC replacement in 2022. Accordingly, the Commission approves Corix’s 2023 forecast of \$427,260 for the distribution control panel upgrade to be included in the capital additions. As discussed below under Depreciation Section 5.2, the Commission directs that the costs of the new additions for the control panel upgrade be classified in a new capital asset account that is better reflective of its service life..... paragraph 69
3. However, going forward, the Commission advises that it will no longer accept sole-sourcing on major project or equipment purchase orders or service contracts obtained by Corix. In order to ensure the public interest is protected while setting just and reasonable rates, the Commission must determine whether costs incurred or forecast in an applicant’s revenue requirement are prudent. The onus is on the applicant to substantiate that such costs are prudent. In the Commission’s view, it is difficult to satisfy this onus when alternative sourcing options are not explored. For future procurement, the Commission directs Corix to obtain a minimum of three competitive bids when purchasing:
 - O&M goods and services with a value over \$25,000; and
 - capital project work, such as construction, supervision, engineering or architectural services, with a value over \$100,000. paragraph 70
4. If three bids for a specific type of equipment or work cannot be obtained, the Commission directs Corix to provide compelling evidence why it could not obtain the three bids. Corix may sole-source contracted work or purchases regardless of value in situations where there is only one supplier who is capable of performing the work, or in emergency situations such as natural disasters like floods. paragraph 72
5. The Commission directs Corix in its compliance filing to retire the meters being replaced in Account 334 from rate base and to create an amortization of reserve differences (ARD) account, where the difference between the remaining unamortized depreciation expense from 35 years to 15 years is recorded for the replaced meters. The ARD account can be expensed to depreciation using a straight-line method over a period of three years. The accelerated period of three years was determined in order to minimize intergenerational inequities; by accelerating the depreciation, the retired meters are more likely to be paid for by those customers who used them while they were in service and have been paying less in depreciation expense than they would have otherwise been paying if the more accurate service life had been known from the outset. paragraph 80

6. The Commission believes that it is prudent to replace the distribution control panel, but the Commission views that the depreciation expense for this asset should have been already fully recovered. Accordingly, the Commission directs Corix to remove any residual amounts of the distribution control panel being replaced from rate base in its 2023 forecast. paragraph 84
7. The Commission also directs Corix in its compliance filing to place the value of the new control panel in a separate capital asset account with an appropriate service life, as the service life of the control panel being replaced appears to be significantly different than service life assigned to Account 320.3 –Other Water Treatment Equipment. A separate capital account is justified given the cost of the new control panel capital additions compared to the capital account net book value of the present account, (about four times the net book value of the Other Water Treatment Equipment account as of January 1, 2023) and the apparent difference in asset lives. Corix is directed in its compliance filing to update its financial schedules to accommodate the addition of a new control panel capital account and provide support for its chosen service life for the new control panel. paragraph 85
8. The Commission directs Corix, in the compliance filing to this decision, to include \$252,213 as the forecast for 2023 for the total allocated costs in place of its corporate, common administrative and regional costs forecast. paragraph 134
9. The Commission directs Corix, in the compliance filing to this decision, to include \$259,779 as the forecast for 2024 for the total allocated costs in place of its corporate, common administrative and regional costs forecast. The 2024 forecast is the 2023 forecast approved amount of \$252,213 plus three per cent labour escalation. paragraph 136
10. The Commission directs Corix, in the compliance filing to this decision, to include \$267,573 as the forecast for 2025 for the total allocated costs in place of its corporate, common administrative and regional costs forecast. The 2025 forecast is the 2024 forecast approved amount of \$259,779 plus three per cent labour escalation. paragraph 137
11. In order to incorporate the Commission’s findings regarding the forecast FTEs and the forecast salaries and wages costs for 2023, the Commission directs Corix, in the compliance filing to this decision, to include \$251,286 for salaries and wages in 2023. This is calculated as the 2022 projected costs of \$225,664, plus \$9,311 for labour escalation, plus \$16,311 for the additional 0.2 operator FTEs approved for 2023. paragraph 149
12. The Commission directs Corix, in the compliance filing to this decision, to include \$258,825 for salaries and wages for 2024. This is an increase of three per cent over the approved 2023 forecast, in line with the Commission-approved labour escalator for 2024. paragraph 150
13. The Commission directs Corix, in the compliance filing to this decision, to include \$266,590 for salaries and wages for 2025. This is an increase of three per cent over the approved 2024 forecast, in line with the Commission-approved labour escalator for 2025. paragraph 151
14. In order to incorporate the Commission’s findings regarding the forecast consulting/outside services costs for 2023, the Commission directs Corix, in the

- compliance filing to this decision, to include \$32,857 for consulting/outside services in 2023. This is calculated as the 2021 actual restated costs of \$31,900, plus \$957 for inflation. paragraph 157
15. The Commission directs Corix, in the compliance filing to this decision, to include \$33,843 for consulting/outside services for 2024. This is an increase of three per cent over the approved 2023 forecast, in line with the Commission-approved inflation rate for 2024. paragraph 158
16. The Commission directs Corix, in the compliance filing to this decision, to include \$34,520 for consulting/outside services for 2025. This is an increase of two per cent over the approved 2024 forecast, in line with the Commission-approved inflation rate for 2025..... paragraph 159
17. In Section 6.2 above regarding the salaries and wages costs, the Commission approved 0.7 FTEs for the area supervisor for 2023 and 1.9 FTEs for operators for 2023, for a total of 2.6 FTEs. Deducting the forecast 0.3 FTEs for summer students from this total results in 2.3 FTEs to use in the calculation of the fleet/vehicles costs for 2023. The revised calculation is 2.3 FTEs × 1,800 available hours per FTE × \$8.80 per hour, which results in a 2023 forecast of \$36,432. The Commission directs Corix, in the compliance filing to this decision, to include \$36,432 for fleet/vehicle costs in 2023. paragraph 161
18. The Commission directs Corix, in the compliance filing to this decision, to include \$37,525 for fleet/vehicle costs for 2024. This is an increase of three per cent over the approved 2023 forecast, in line with the Commission-approved inflation rate for 2024. paragraph 163
19. The Commission directs Corix, in the compliance filing to this decision, to include \$38,276 for fleet/vehicle costs for 2025. This is an increase of two per cent over the approved 2024 forecast, in line with the Commission-approved inflation rate for 2025. paragraph 164
20. In order to incorporate the Commission’s findings regarding the forecast lab testing costs for 2023, the Commission directs Corix, in the compliance filing to this decision, to include \$14,000 for lab testing costs in 2023. This is calculated as the 2022 actual costs of \$13,592, plus \$408 for inflation. paragraph 169
21. The Commission directs Corix, in the compliance filing to this decision, to include \$14,420 for lab testing costs for 2024. This is an increase of three per cent over the approved 2023 forecast, in line with the Commission-approved inflation rate for 2024. paragraph 170
22. The Commission directs Corix, in the compliance filing to this decision, to include \$14,708 for lab testing costs for 2025. This is an increase of two per cent over the approved 2024 forecast, in line with the Commission-approved inflation rate for 2025. paragraph 171
23. In order to incorporate the Commission’s findings regarding the forecast other miscellaneous expenses for 2023, the Commission directs Corix, in the compliance filing to this decision, to include \$3,169 for other miscellaneous expenses in 2023. This is calculated as the sum of the 2023 customer freight/courier charges approved forecast of \$2,968 and the 2023 memberships and dues approved forecast of \$201. paragraph 177

24. The Commission directs Corix, in the compliance filing to this decision, to include \$3,264 for other miscellaneous expenses for 2024. This is an increase of three per cent over the approved 2023 forecast, in line with the Commission-approved inflation rate for 2024. paragraph 178
25. The Commission directs Corix, in the compliance filing to this decision, to include \$3,329 for other miscellaneous expenses for 2025. This is an increase of two per cent over the approved 2024 forecast, in line with the Commission-approved inflation rate for 2025..... paragraph 179
26. The Commission directs Corix, in the compliance filing to this decision, to include \$1,280 for IT costs for 2023 and \$2,061 for 2024. paragraph 185
27. The Commission directs Corix, in the compliance filing to this decision, to include \$2,102 for IT costs for 2025. This is an increase of two per cent over the approved 2024 forecast, in line with the Commission-approved inflation rate for 2025. paragraph 186
28. In order to incorporate the Commission’s findings regarding the forecast travel costs for 2023, the Commission directs Corix, in the compliance filing to this decision, to include \$515 for travel costs in 2023. paragraph 190
29. The Commission directs Corix, in the compliance filing to this decision, to include \$530 for travel costs for 2024. This is an increase of three per cent over the approved 2023 forecast, in line with the Commission-approved inflation rate for 2024. paragraph 191
30. The Commission directs Corix, in the compliance filing to this decision, to include \$541 for travel costs for 2025. This is an increase of two per cent over the approved 2024 forecast, in line with the Commission-approved inflation rate for 2025. paragraph 192
31. Given the 2023 ROE rate in the Commission’s most recent GCOC proceeding was left unchanged at 8.5 per cent, and that Corix’s former ROE rate was approved based on the Commission’s most recently approved GCOC ROE rate at that time, the Commission finds that Corix’s approved ROE for its application years of 2023 to 2025 will be 8.5 per cent. The Commission directs Corix to reflect the approved ROE of 8.5 per cent in its compliance filing. paragraph 206
32. The Commission will not establish the amount of the rate increase for residential and commercial customers at this time. Corix is directed to update its schedules as part of its compliance filing incorporating the directions contained in this decision and, based on the results of the amendments, submit a new rate proposal as part of its compliance filing. paragraph 248
33. The Commission directs Corix to set its 2023 bulk water rates (as soon as reasonably practical after the date of the decision) at \$4.50 per m³, in 2024 at \$5.00 per m³ and in 2025 at \$5.40 per m³. The increases to 2024 and 2025 follow the same dollar value increment of increases as proposed by Corix in its application for bulk water rates in 2024 and 2025, increases of \$0.50 and \$0.40, respectively. Corix is directed to forecast its bulk water revenues using the approved bulk water rates in its compliance filing. paragraph 260
34. In Corix’s next rates application, the Commission directs Corix to provide an estimate of its total costs to serve the bulk water customers. This includes the capital costs, O&M costs, and customer billing and support. This information, weighed against the revenue earned from bulk water customers, will help the Commission and Corix water customers

- understand the profitability of this competitive line of business and its benefit to the Corix’s regulated water utility, and may better inform bulk water price-setting in the next rate application..... paragraph 261
35. The Commission directs Corix to establish system-specific water loss targets for each of WTP and distribution system water losses measured in loss percentages and litres per customer, and to provide justifications for its selected targets. The targets must be reasonable when compared to generally accepted North American industry standards or targets for water loss levels, recognizing that there is currently no single definitive source for this, as pointed out by Corix. The Commission directs Corix to develop a plan to meet its internally set water loss target during its 2023 to 2025 test period and to include the target and plan in Corix’s compliance filing to this decision. The Commission further directs Corix to include its 2022 water loss statistics in its compliance filing.
..... paragraph 285
36. In Corix’s next general rate application, the Commission directs Corix to provide its historical and present water loss statistics beginning in 2010 to its most recently available year and an update on the progress of Corix’s water loss mitigation plan and achievement of its targets..... paragraph 286
37. Corix has been directed to submit a compliance filing to this decision, as set out in Section 11. This will require an update to the charges included on the rate schedules for residential service, commercial service and bulk water service. The Commission directs Corix, as part of the compliance filing, to submit an updated water rate tariff document that incorporates the updated charges on the rate schedules for residential service, commercial service and bulk water service, and reflects the approvals granted previously in this section. paragraph 295